The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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) PROFITS OUTLOOK for INDUSTRIES TO PACE OUR ECONOMY

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— Domestic repercusions
nd International Consequences

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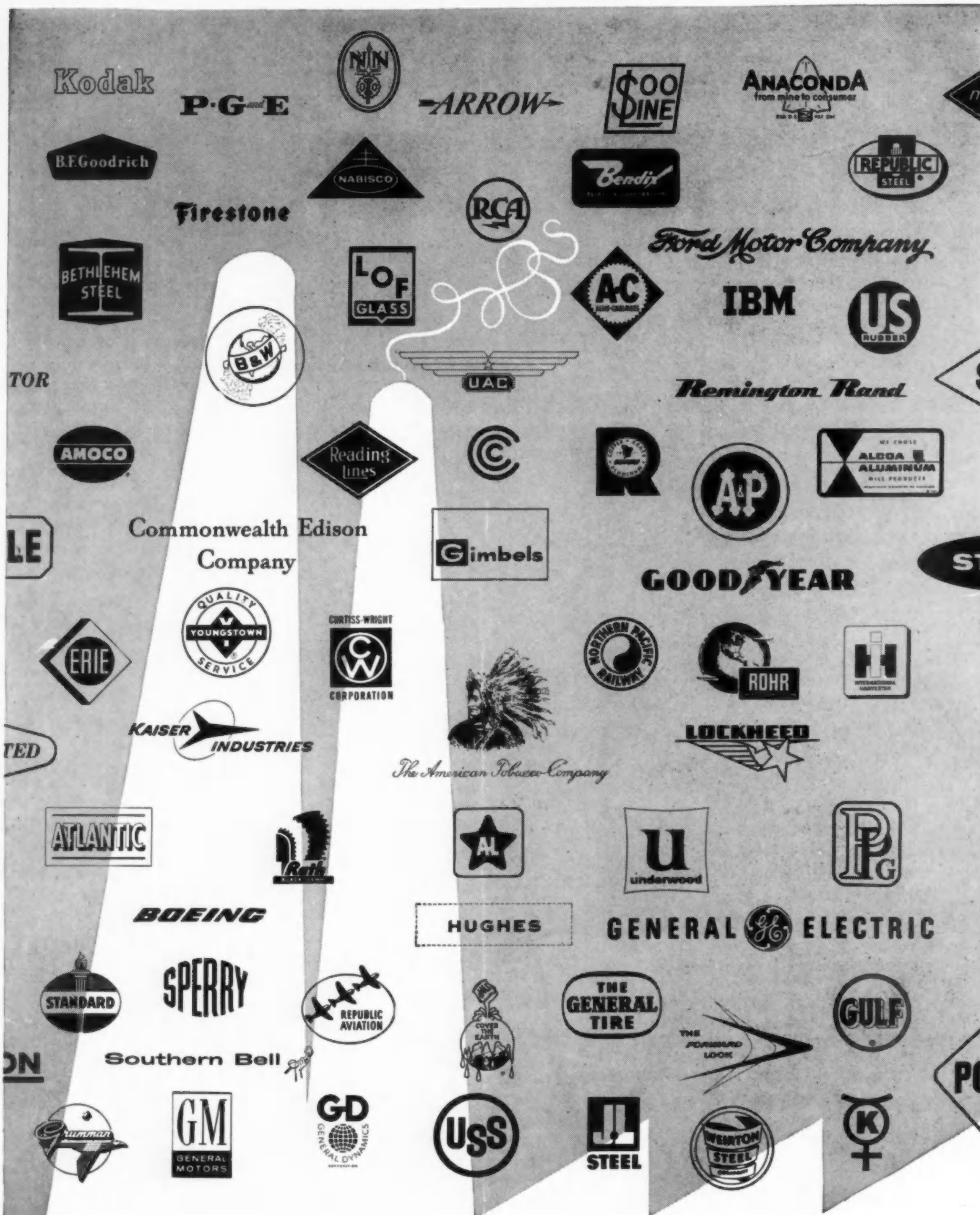

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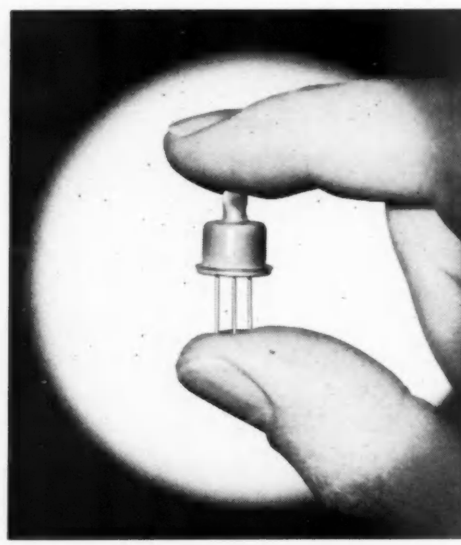
Without adequate telephone company profits you wouldn't have the kind of service you'd like. And the chances are very good you'd be paying more for an inferior brand than you now pay for the best telephone service in the whole world.



NEW AND BETTER SERVICES for telephone users will come from the Bell Telephone Laboratories invention of the Transistor, a major scientific breakthrough. This mighty mite of electronics, which can amplify electric signals up to 100,000 times, will play a big part in push-button telephony, for example. The Transistor has been made possible by basic physical research of the kind that can only be undertaken by a progressive business with good earnings over the long pull.

BELL TELEPHONE SYSTEM

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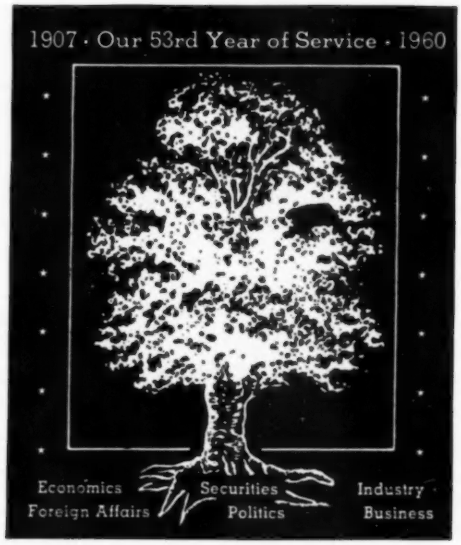
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

AIRING THE DIRTY LINEN IN PUBLIC . . . What a picture we must present to the world when they read about the wrangling among the heads of our armed forces regarding our defense capabilities and the relative strength of Russia and the United States.

It makes me blush for our generals and politicians when I hear the questions relating to missile strength and the individual striking ability in various areas, and find it distorted as referring to our overall strength in defense. And what is more, comparing these individual sectors with Russian overall figures, which we are accepting at face value, although there is no reason whatever to have faith in any figures and claims that emanate from the Soviet Union.

I recall the hue and cry that arose when President Eisenhower made cuts in the armed forces a couple of years ago, on the ground that modern warfare called for a recasting of our military structure, with less emphasis on the foot soldier. But I found no voice was raised to refer back to this statement when Nikita Khrushchev said the same thing only a few months ago, in explaining his advocacy of a cut-back in the Soviet Union's military man-power program.

With one scientific break-through after another, the fact remains that the United States has made enormous progress in electronics that enables us in many ways to far-out-strip the Russians. We have now developed a variety of radar instruments with an all around capability sufficient to deter Russia from launching an attack against us, and have ringed the Soviet Union with highly sensitive radar instruments that can observe launchings from missile test centers, and capable of observing various aerial movements. These facts purposely are minimized by those who are intent on belittling our achievements.

Can we doubt that our government is working on important defense weaponry that has not been made public? I know that Russia believes this to be true, and her henchmen are busily trying to ferret out every clue to learn what we are actually doing.

We hope that in the light of our need to maintain leadership as a first class power that the opposition will not make our defense program a political football, or keep the press busy with statements that Russia has beaten us out and that we are on the way to becoming a second-rate power. Where will the politicians be if they talk the people of the United States into believing that this is so?

These crucial days call for loyalty. It is not a time for political bias. Defense of the nation cannot be a partisan issue.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — "*Our 53rd Year of Service*" — 1960

BACK OF THE BREAKDOWN IN LEND-LEASE NEGOTIATIONS

Because of the breakdown of negotiations with the Soviet Union over their unreasonable demands that a Lend-Lease settlement be linked to free trade advantages — plus long-term credits (undoubtedly in amounts that would eventually greatly exceed the figure of $800,000,000 the United States had finally agreed to accept) — we repeat below from our January 16, 1960, issue the full text of the Russian memorandum which appeared in Washington in September 1959, before Khrushchev met with the President at Camp David.

This, as you can see (presented more clearly in larger type), covers lend-lease under Soviet Offer "A," and is completely in line with the demands made by the group led by Soviet Ambassador Mikhail A. Menshikov in his negotiations with the United States delegation, headed by Charles E. Bohlen.

It is now clear that this paper, rather than being merely Russian propaganda designed to belittle the United States, actually represents the demands which Russia intends to make. I have never seen a document of this kind before, seriously put forth by legitimate principals. In fact, it sounds more like the kind of demands that a gangster makes in a small way in the protection racket, and in a big way when he demands an interest in somebody's business — or else — which can mean destruction of goods — property — lives.

If the Soviet Union is really serious or has presented this memorandum with "tongue-in-cheek", using the Lend-Lease provision as a test of what she can expect to get, the fact remains that the intentions of the Kremlin are far from peaceful. And, if this is so, there is no real hope for a meeting of minds at the Summit Conference scheduled for this year.

In presenting this matter to our subscribers at this time, we do so to let them see what is going on behind the flimsy curtain of "peace-on-earth-and-goodwill-to-men-campaign" that Russia is sponsoring — and mostly so that our readers can watch the progress on each major issue as it moves toward a point of negotiation in Washington.

RUSSIA'S PREPOSTEROUS DEMANDS FOR MAKING EVEN THE MOST TRIVIAL CONCESSIONS

(As contained in a memorandum freely circulated in the United States in early September 1959)

THE SOVIET OFFERS	WHAT THEY DEMAND IN RETURN
(a) To acknowledge the war debt and to pay the figure of $800 million the U.S. set for settlement.	(1) Sponsored membership in the International Bank for Reconstruction and Development and International Monetary Fund and their affiliates.* (2) No limitations of trade between U.S.A. and U.S.S.R. * This does not make much sense. The U.S. from the start welcomed the U.S.S.R. in the Bretton Woods program and actually assumed part of the U.S.S.R. quota in the IBRD. But Moscow did not want to disclose its gold holdings, trade, etc., as required of IMF members.
(b) Compromises on Berlin ultimatum.	(1) Agreement for withdrawal of troops from Berlin as demanded by Soviet Union. (2) Extensive credits by the United States as well as by syndicates of banks.
(c) Agreement to a German plebiscite for unification and a peace treaty to include the 4 occupying powers.	(1) They demand equal supervision on draft for peace treaty, and plebiscite with the 4 occupying powers. (2) Credit insurance by U.S.A. for exports to Soviet Union.
(d) An agreement for perpetual and unconditional neutrality of an independent German state.	(1) Extension of membership to Soviet Union in North Atlantic Treaty Organization. (2) Joint long-term development loans to underdeveloped countries, regardless of whether it is the Soviet Union or the U.S.A. who are interested in their welfare.
(e) Agreement on limitation and inspection of nuclear weapons.	(1) Scrapping of our bases in various countries.
(f) Acceptance of Nationalist China in U.N. with international recognition of Nationalist China.	(1) Admission of Communist China to U.N. and also to IBRD and IMF—with access to capital now allotted to Nationalist China by these institutions. (2) Listing in all international security markets of direct and guaranteed obligations of the U.S.S.R.

As I See It!

By Charles Benedict

A SHARP SET-BACK FOR COMMUNISM IN SOUTH AMERICA IS IN THE MAKING?

THE disillusionment over Communism that followed Red China's brutal conquest of Tibet, and her aggression in India, culminating in the overthrow of the Communist government in the state of Kerala—was the first serious blow the ideology suffered since it began its march to communize the world. It brought distrust of the leadership as well as the form of government.

The neutralist countries could not help but be impressed by what happened in Kerala in particular—which had been expected to set an example as an ideal communist state, but which failed so miserably, that the government had been ousted by popular demand months before the recent election.

Strange Voices Downstairs

This, and the overwhelming majority the anti-communists piled up, spoke volumes for the failure of the communistic state, in a way that must have been most impressive to those nations of Asia, Africa and Latin America, who up to that time had found the thought of a communist experiment rather intriguing, with an eye to the offers of financial aid by Communist China and Soviet Russia.

The Cuban revolution, communist oriented, unfortunately for Castro, was therefore badly timed—because it caused Latin American leaders to concentrate on the outcome of each step that was taken. To the South Americans in particular, each blunder he made stood out like a sore thumb, so that, despite sympathetic allowances for his problems, he lost support on all sides.

It now appears that Fidel Castro's disruptive policies in Cuba affecting all classes of the population, has scared off those in the South American countries to whom Castro had looked for collaboration in launching the revolutionary movement in which he expected to take over the leadership.

That Mikoyan's visit will not be of any help—is clearly shown by the evasion or outright refusal of the various South American governments to attend the conference of the under-developed countries of Africa, Asia and Latin America sponsored by Castro, and scheduled to be held in Havana next September.

Brazil frankly turned down the invitation to this neutralist-tinged world conference in a move that may deal a major blow to Castro's communist - inspired revolution. And of equal significance, was the polite side-stepping by Argentina, which tactfully spoke of the possible meeting in Bogota, Colombia, of an Economic Committee of the Organization of American States, to "consider problems similar to those on the agenda for the conference of Havana." This was followed by more negative responses from other Latin American countries.

Therefore, the expressions of affection and goodwill emanating in the reports from South America, leave no doubt that President Eisenhower will receive an enthusiastic welcome everywhere he goes — that Castro, instead of further alienating Latin America from the West, has focused attention on the advantages of collaboration with the United States. It therefore seems likely that much can now be accomplished in cementing relations with our neighbors to the South, for unquestionably new ways and means have been developed for working out the problems of the various countries along the lines that proved so successful in dealing with the coffee situation, which has been so helpful for Colombia, at the same time that it benefited the other coffee producing countries elsewhere.

Much is already in the works, so that President Eisenhower's visit may bring important unresolved matters to fruition. END

Stocks Seeking More Realistic Levels

Market showing inclination toward greater and greater caution, awaiting clarification of length and duration of profitable industrial activity—particularly under traditional uncertainties usually present in a Presidential election year . . . the dangerous impact of stepped-up activities in the cold war so close to our shores . . . and the world economic and financial adjustments in the making. With tight money retarding speculative activity, the "flighty" market accentuates the possibility of margin calls as stocks drop too far below 90% requirement. Again, we suggest profit-taking or use of professional hedging techniques to protect long term holdings of issues you intend to retain.

By A. T. MILLER

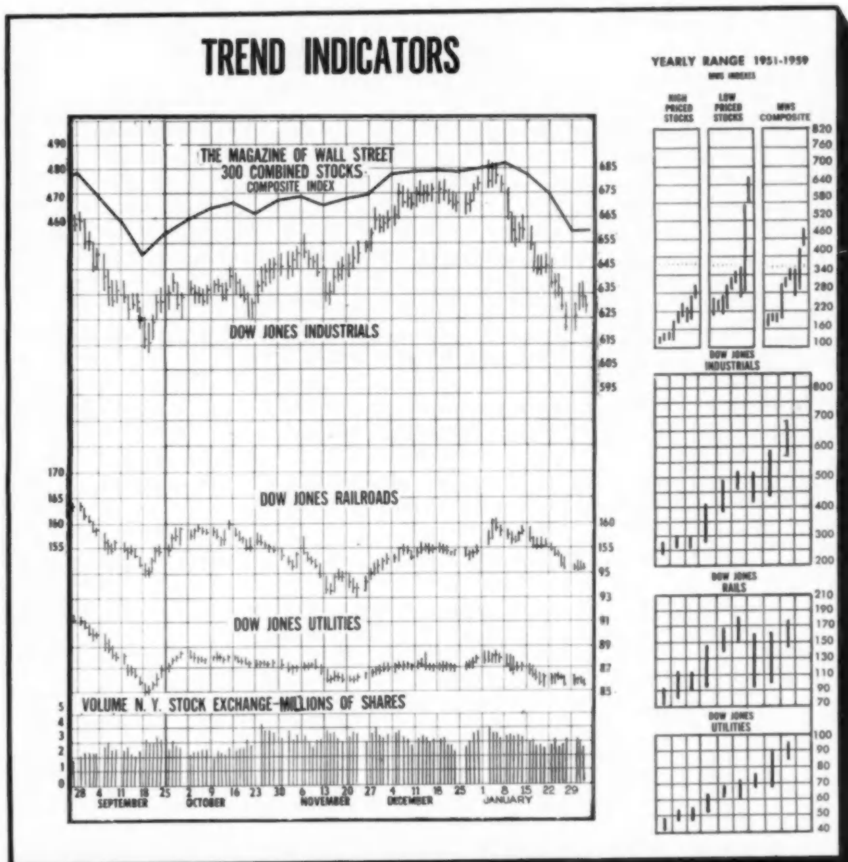
There was a severe decline of 12½ points by noon this Monday morning, February 8th, clearly indicating that a critical point has been reached. This became clear, following as it does the market activity of last week, when we experienced a rather feeble rebound considering the extent of the declines recorded in the previous four weeks. And, only a relatively small part of the rise scored in the first two sessions had been retained by the close of the week. Thus even though resistance to pressure improved, following a correction approximating 10 per cent as measured by the Industrial Average, demand for equities failed to generate any degree of enthusiasm comparable with that noticed in earlier stages of the protracted bull market.

The high hopes regarding the extent of the resurgence in industrial activity that had been expected to follow settlement of the steel strike has waned. The scramble for raw materials that had ben anticipated failed to develop. Actual shortages had been met by huge imports of steel, much of which as a result of the return to work under the Taft Hartley provisions, is now lying on the docks and being offered at bargain prices.

At this writng we are now going through a severe test. Whether a successful defense can be organized remains to be seen. Penetration of support levels registered in the area of 611 to 613 in the Industrial index in corrective reactions last year, may occur at any time and would be bearish. Up to today, the Average had fallen from the January 4 peak at 688.21 to 619.51, where an automatic rebound set in motion a retracement of almost one-third of the ground lost before overhead resistance became too substantial. Lows set last year were: 611.68 in May, 613.11 in June and 613.30 in September. These are the points that if penetrated, would signal further erosion of prices.

The Blue Chips

A stabilizing factor of considerable importance that supports the orderly market decline, is the unusually fine annual reports of steel producers and motor car makers, as compared with a year ago, especially among those companies that were not seriously involved in the long steel strike, like National Steel, which made $7.28 against the $4.80 of a year ago. However, Bethlehem Steel barely covered the $2.40 dividend requirement, showing a net profit of $2.44, against $2.91 in the recession - year of 1958, while U. S. Steel profits declined less than a dollar, to $4.24 a share from $5.13 in 1958.



While statements are not out for all the motor companies, Ford's earnings of $8.24 per share, in the face of a long slow-down in production, was in the nature of a revelation. As a matter of fact, there will be careful scrutiny of the figures by analysts to see how this was achieved with only a 30% sales increase. And, what changes there were in bookkeeping items that were responsible for these results, not only as far as Ford is concerned, but in appraising the zooming earnings reports for other companies.

Investment caution persists under the growing uncertainties in the business news, where pressures are already mounting. There was considerable discounting of an inflationary atmosphere in the steel market, when Big Steel last week reduced prices of warehouse products in the St. Louis area, which was followed by Inland Steel's price cuts in the Pittsburgh area.

While it may be a retaliatory measure, this price adjustment clearly indicates that a shortage of steel in many areas has been corrected more quickly than had been anticipated only a few weeks ago. This situation is further underscored by demands from some of the largest users of specialty steels, the aircraft manufacturers in particular, that producers should anticipate their requirements, with the demand that the mills themselves carry the inventories, so as to have supplies available on relatively short notice, thereby enabling major steel users to avoid the necessity of carrying large stocks which tie up huge amounts of capital plus the financing costs involved.

The automobile industry has long followed this procedure, which insures a steady flow of raw materials into assembly plants as needed—and the aircraft manufacturers are now endeavoring to get on the same basis by spacing orders and demanding immediate deliveries.

In Conclusion

We believe the market is now at a crucial point and is bound to seek more realistic levels. Under the existing background it now appears that the unprecedented cycle which began in 1949 will culminate this year, rather than in 1961 as expected. And, as we have suggested right along, subscribers should take steps to protect their position, as a serious break in the market could involve us in domestic and international economic and financial problems that would produce a severe crisis in this country—Monday, February 8, 1960.

PROFITS OUTLOOK for INDUSTRIES to PACE OUR ECONOMY in 1960

— Companies with best profits prospects — those likely to lag — decline

By ROBERT B. SHAW

THE impressive accomplishments of the recent past taken together with the enormous sums currently begin channeled into research suggest almost unlimited possibilities for the forthcoming decade of the 60's. Just the same, the investor should not allow his vision to be dazzled by these brilliant prospects. First of all, ten years is too long a period on which to base a forecast, except in the most general terms. Secondly, these glowing pictures of the future emphasize products and services that will be available, but say little about who will supply them or how much they will earn. To be sure, it is not too early for long-range investors to be making informed guesses on these questions, but a larger number of shareholders, particularly those for whom the timing of purchases is important, should keep their feet firmly on the ground and concentrate their attention upon anticipated results for 1960 alone rather than upon the entire decade.

Many are making a prediction for profits in general for 1960, by extending the trend already established in 1959, allowing for some acceleration as inventories are replenished after the long, enervating steel strike, assuming a narrowing of profit margins

as wages and other costs creep up on more rigid prices, and hoping for no unexpected set-backs, such as major labor difficulties. Projections of this sort indicate an increase in corporate income for 1960 of from 12% to 15% but this is really guesswork and not a trustworthy conclusion.

If the figure approaches $27 billion, it would not only establish a new record high but would also represent the breaking out above a plateau that has persisted since 1955. These results may well come to pass, but the premises upon which they are based are uniformly optimistic and make very little allowance for the shift and change we have come to expect—nor for the unforseen. Also such a broad picture, however carefully drawn, is of limited usefulness to investors, who must look for profits in *individual industries* and *companies*.

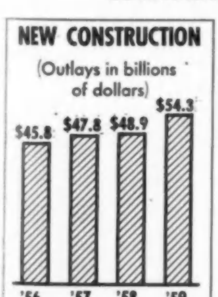
Let's Get Down to Specifics

Accordingly, we will lay aside the telescope at this point and focus the microscope on seven key industries, which are of extreme importance in our economy, not merely on the basis of their own size but because of their strategic role in providing essential raw materials or shaping consumer attitudes. These seven industries, with their approximate dollar sales volume last year, are:

Construction	$54	Billions
Machinery (excluding electrical)	31	"
Automotive (including parts)	28	"
Chemicals	25	"
Petroleum	16	"
Steel	16	"
Retailing	216	"

It would be misleading to add the sales of these seven groups and compare the total ($386 billions) with the gross national product last year ($480 billions) as a measure of their aggregate economic importance. Obviously, these figures include considerable duplication, as raw steel shapes will again be sold as vehicles or machinery and products of all of the industries may wind up passing over a retail counter. Still, for reasons not necessary to enlarge upon, these industries do occupy a particularly crucial role in the economy. What is their profits outlook for 1960?

Construction To Show Mixed Trends



■ The construction industry in 1959 enjoyed a sharp gain and, for the first time in its history passed the $50 billion level of outlays—by a wide rather than a narrow margin. *Residential construction, accounting for about 40% of the total, was responsible for the major part of this record,* as earlier gains in non-residential building tapered off and heavy engineering, including highway construction, suffered an actual decline. Overall, 1959 showed a rise of about 10% in dollar value of construction and 8% in physical volume.

In 1960 it is certain that further gains are going to be narrow if visible at all. The trends in contracts already awarded in recent months makes this prediction very nearly certain. Construction awards in December fell below the corresponding year-earlier period for the fifth month in succession. Members of the building industry found some comfort in the fact that the drop of 3%, in dollar value, was the narrowest during this declining phase, but experience has shown that such small variations are not usually significant.

Residential construction is likely to decline 10% or 12% to around 1.2 million units from the 1.350 million estimated for 1959, although rising costs and larger houses will provide a little better support for dollar volume. The adverse effect of high interest rates on residential construction is widely recognized; an extra ¾% or one full percentage point on a mortgage extending over a 25 year period adds considerably to carrying charges. A second factor depressing home building is the persistence of the "hollow generation" of depression-born babies that are still in their period of family formation; it will be another three or four years before the bumper crop of the post-war baby boom starts getting married and looking for houses.

Farm construction, although too small to merit much attention, will also slide off. Contrary to some suggestions individual farm families are continuing to enjoy an expanding prosperity, but the total farm population is declining steadily.

Utility construction is almost uniformly a buoyant influence. Electric power outlays reached nearly $5 billions in 1959, only a narrow gain over 1958, but are likely to expand more broadly in the current year. Natural gas construction, on the other hand, may be over the hump and heading downward. In any case, projects immediately planned are likely to decline because of the unfavorable regulatory atmosphere. The outlook for railroad replacement and maintenance looks favorable this year, but this is a rather undependable segment of the industry.

Office and factory building: There are convincing signs that after a sharp decline for the latter segment since 1957, both will show very substantial gains in 1960. Factory contract awards were up an impressive 58% in December and office awards climbed a more modest 8%.

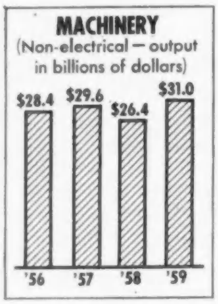
Heavy engineering projects, however, including **highway construction,** already down substantially in 1959, are apt to taper off further in the present year. Part of the reason for the decline was the normal reaction from the artificial anti-recession program in 1958, but the high interest rates, delays in surveying routes and acquiring land, and rapidly spiraling costs have slowed down the whole program.

Taken altogether, non-residential construction may increase 10% to 15%, possibly enough to offset the decline in the housing end, but so narrowly that any gain at all is likely to depend upon the prices building material companies can obtain for their products.

With a rising trend in costs inevitable, most building companies are unlikely to show any profit gains this year. Holding their own can be considered a

favorable performance. The companies largely dependent upon housing modernization, such as **Johns Manville** and **National Gypsum,** are sound but not outstandingly attractive holdings. The *cement* companies will require a great dea of patience. *Manufacturers of air conditioning* and related equipment should benefit from the office and factory boom, but companies not usually classified in the building industry are more likely to reap this harvest.

Diversity in Machinery Industry



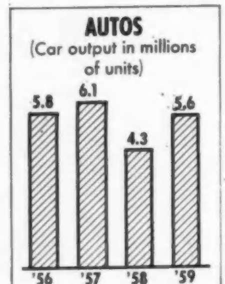
▪ **Machinery** is another complex industry, as broad as the definition used. The estimated 1959 sales volume of $31 billions (see chart), includes such branches as agricultural and office machinery (but excludes electrical equipment). More commonly the machinery industry is viewed in a narrower sense, to comprise builders of processing and specialty machinery, machine tools, construction and material handling equipment and steam generating apparatus only. Although sales of this group are much smaller, it still occupies a strategic part in the economy. *Sales of the machine tool builders alone are regarded as a significant bellwether of future trends.*

The current level of around *$55 millions in monthly orders* for domestic machine tool builders *is considerably below both the ten-year average and the industry's capacity.* Imports have hit this group particularly hard, and the outlook is clouded. Manufacturers of general machinery should enjoy an increase of 6% to 8% in sales, somewhat parallel to the bulge in factory construction, although product variety is so wide that this estimate may be quite misleading for any particular company.

Manufacturers of power tools, like **Black & Decker,** can expect an even more satisfactory year, although they will shift as much of their production as possible to foreign plants. The discouraging outlook for highway and military construction depresses the near-term outlook for pneumatic drilling **(Ingersoll Rand** and **Chicago Pneumatic Tool)** and earthmoving **(Caterpilla Tractor)**; also the agricultural equipment manufacturers' segments, although some of these are approaching an attractive range. Power equipment manufacturers **(Babcock & Wilcock, Combustion Engineering)**, dependent largely upon utility construction, should enjoy a moderate increase in earnings, and yet would be quite vulnerable to the "something" that might go wrong. Other, specialized machinery manufacturers, such as **Dresser** (oil well drilling equipment), **Joy Mfg.** (automatic coal miners), **F. E. Myers** (pumps) and **Outboard Marine** will share the fate of the industries with which they are so closely associated.

Taken as a whole, the machinery industry enjoys advantages arising out of continuing obsolescence and sharply rising wage costs, which provide its two best sales arguments. It is, however, becoming increasingly vulnerable to foreign competition. Stocks of the more widely diversified companies can be considered attractive investment at slightly lower prices, *but emphasis should be place on organizations with foreign affiliates.*

Increased Competition for Car Manufacturers



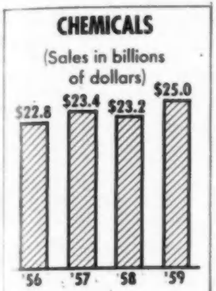
▪ Compared with the two widely ramified industries just discussed, **automobiles** comprise a very homogeneous group. Just the same, this industry has also become more complex in the last few years: the re-emergence of several independents as genuine competitors, the vogue for the compact car, the toehold which foreign manufacturers have obtained in our domestic market, engineering improvements and interesting new optionals, all make analysis considerably more difficult than just a short time back. The break-through of the compacts has even reduced the significance of the most familiar measure of annual production, unit output, as the manufacturers will certainly net less on the smaller models, even though many eager prospects are discovering that the delivered price on the compacts is considerably higher than they were initially led to believe.

Unit sales approximated 5,600,000 in 1959, held down artificially by the steel strike in the final quarter. Volume for the present year is variously estimated as between 6,500,000 and 8,000,000 units; it seems wiser to lean toward the smaller figure. The industry does find encouragement in the fact that it has enjoyed no really "big" year since 1955; the 1955's should be pretty well worn out by now, and the corresponding indebtedness long since paid off. The growing tendency for two-car families and the indicated bulge in the young adult group beginning a few years hence are also favorable, but essentially long-range factors.

President Churchill of **Studebaker-Packard**, admittedly a prejudiced observer, projects compact sales at a quarter of total in the current year. Whether this is close or not, the majors will be plagued by this unaccustomed competition, and even their own climbing aboard the bandwagon will give only partial relief. Whether the compacts will end the threat of foreign imports remains to be seen, but the importers are certainly not throwing in the sponge. Automotive profits will almost certainly be up this year, perhaps by 15%, and dividend increases by **Ford** and **General Motors** can take place, but the investor should not be misled by the unalloyed optimism of some of the industry's spokesmen.

Auto accessory manufacturers should also enjoy moderately increased earnings, but they are always vulnerable to a possible decision of one of their customers to displace them by a process of vertical integration. Thus, well diversified parts suppliers like **Borg Warner** and **Dana Corporation** are best situated. The **tire and rubber companies**, beneficiaries of replacement as well as original equipment demand, will repeat the annual gains that have become a habit for them, but just the same the better issues, like **Goodrich, Goodyear** and **Firestone,** look too generously priced.

Chemical Profits Up About 8%

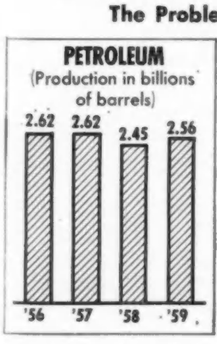


■ **The chemical group,** probably more nearly self-created out of research than any other major industry, enjoyed a considerable profit gain of about 35% in 1959. The same trend may continue in the present year, when sales are likely to reach $27 billions, or 8% above the record level established for the year just ended. As in other mass production industries, increased volume, up to a point, allows better cost control, but the higher wage rates and intensifying foreign competition are now offsetting factors, of importance. On the whole, the recent profit margin of about 8% should be maintained, and this means profits up in about the same ratio as sales.

While chemicals do comprise one of the best examples of growth in our contemporary economy, capacity has nevertheless been expanded at an excessive rate, and this creates both a weak price structure and makes it difficult to support the high rate of obsolescence. The ingenuity of management in developing and marketing new products has maintained financial strength in the industry, but many of the companies are essentialy on a treadmill.

Companies making consumer goods or with trade names familiar to the public, like **du Pont,** are in the strongest position. Other companies in heavy chemicals are attractive on a long-term basis, provided financial strength and managerial acumen have been demonstrated, but they will not be immune from intermediate fluctuations. The chemical industry again offers immense variety; major components include organics, plastics and synthetic resins, pharmaceuticals, detergents, printing inks, agricultural chemicals, and many others. A reliable generalization covering all of these is impossible, but in most cases the anticipated profits gain in the present year can hardly justify present prices.

The Problem Industry — Petroleum



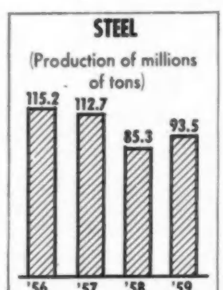
■ On the basis of early reports most **integrated oil companies** showed moderate earnings improvement last year. But this still gives little to cheer about, for the 1958 performance represented a sharp drop from the 1955-57 average. The problems of the oil industry, discussed frequently in this magazine, are well-known; most serious is the threatening glut of crude supplies, both domestic and foreign. Sharp competition among oil-producing countries, as among companies, apparently prevents any effective scheme for the control of this surplus.

No sharp improvement can be expected for 1960. The present mild winter is unfavorable for heating oils. Gasoline demand increases steadily, but slowly —about 4% per year. The conspicuous popularity of the compact cars, with their markedly better fuel consumption, may check even this rate of growth, although over the longer run the petroleum industry expects that the compacts will represent *additional* vehicles rather than *replacement* vehicles. Abroad, demand expands more rapidly, but new discoveries seem to be occurring equally rapidly at the moment.

There are, however, some encouraging factors. Some progress is being made in curtailing production and refinery runs. The large supplies themselves will moderate the demands of the Arab States and Venezuela for larger slices in the profits. The Algerian crisis may threaten deliveries from the large new fields being opened up in that embattled province.

Oil companies divide into relatively distinct groups as producers, refiners and marketers, and again as domestic or international companies, but these likewise occur in all combinations. The **integrated** companies should generally be considered the best medium for the ordinary investor. The **domestics** receive a certain artificial protection from the import control program, which is not likely to be changed radically. The **internationals** have wider marketing opportunities, but also more intensive competition and greater risks. Both groups may be expected to show further modest profit gains this year, comparable with those for the year just ended. This is no exciting outlook, and yet the better issues look attractive at their depressed prices.

Sharp Comeback in Steel

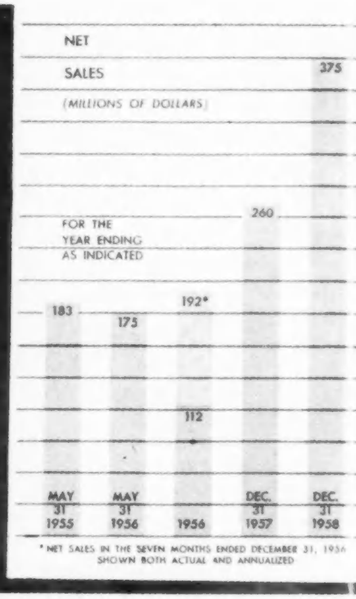


■ For the industry as a whole ingot production of around 93 million tons still marked a 9% gain over 1958's recession dip, but fell substantially below the average level that had otherwise prevailed since 1950. The current year is expected to see not merely a rebound to normal, but a sharp spurt as the estimated deficit of from 12 to 14 million tons in inventories is made up. This outlook makes it clear that 1960 will be a record year; Chairman Roger Blough of U. S. Steel projected production as "close to 120 million tons," while President Homer of Bethlehem, less cautious, ventured a guess of 130 million. These figures compare with the earlier, 1955 peak of 117 million tons.

While the terms of the strike settlement were disappointing to management, the results add up to a failure to solve long-range problems rather than material injury to immediate profits. (The wage boost, it may be recalled, will not go into effect until next December.) Thus, 1960 should be a big year for steel earnings, and could set a record. Biggest percentage gains will naturally go to those companies that suffered most severely last year, but the prosperity should be nearly universal. The steel industry is less cyclical than it used to be, and issues like **U. S. Steel, Bethlehem, National, Armco** and **Youngstown** should benefit.

Steady Gains for Retail Group

The **retail industry** differs sharply from all the others so far discussed in that it is concerned with distribution rather than *(Please turn to page 592)*



PART 1

WHAT 1959 ANNUAL EARNINGS REPORTS REVEAL

Looking to 1960

By WARD GATES

OUT of the welter of corporate annual reports now being released, there is a curious admixture of rosy hues and disturbing clouds.

It was particularly interesting to note that the impact of the steel strike did not seriously affect the earnings of many companies that were directly involved. But this was undoubtedly due to the fact that operations were running at top speed in anticipation of the strike, and after the Taft-Hartley Act was invoked, production rose to a very high level in such a short space of time, that the companies were able to make up lost ground under the inspiration of aggressive planning by capable management. For investors this was a happy outcome, for earnings were on the whole well sustained.

The dark clouds, however, looking to the year ahead, go beyond earnings reports. They relate to the outlook for stock prices in view of the obvious trend toward lower profit margins, resulting from the fashion of multiple-product diversification, overproduction and intensified competition. This, plus the pertinent fact that the advance in stock prices has far outstripped the improvement in corporate earnings, and has now reached a point where it would be difficult for even the most optimistic observer to argue that current earnings are inadequately valued looking to the next few years.

Where does this leave us? Simply at a point where further large increases in stock prices will depend in an increasing degree on comparable growth in

earnings, and will therefore require the greatest discrimination and investment selectivity.

This reasoning means that security prices will now, as they have already begun to do, find more realistic levels, until a clarification of the business and profits outlook for the individual companies indicates that a new and substantial growth phase lies ahead.

Fortunately for investors in good grade stocks, the message that can be read in most corporate reports is that aggressive and farsighted management is still the answer to income, profits and dividends.

High Profitability

We have only to look at a few selected steel companies to see how able management is a prerequisite for earnings and dividends. **Armco** and **National Steel,** which were able to maintain some operations during the steel strike, are special cases, but the extent of their improvements is impressive nonetheless.

National, whose company union at its Weirton Division remained loyal to management, scored record earnings of $7.28 per share compared with only $4.80 in 1958. **Armco** earned $5.19 compared with $3.89. Of course these comparisons are made with recessionary 1958, but the perspective becomes sharper when National's performance is measured against the $7.08 earned in 1956, a good steel year. Moreover, it must be recalled that both companies maintained only part of their operations during the strike.

Equally impressive is U.S. Steel's ability to generate profits under adverse conditions. Operations were shut down completely during the strike yet Big Steel earned $4.24 for the year compared with $5.13 a year earlier. What is most impressive, however, is the fact that the company actually earned 44¢ per share in the last quarter despite the fact that production did not begin until the end of November, and despite the extra costs involved in restarting completely shut down mills. The 44¢ may not seem like much, but any profit is impressive under the circumstances. Moreover, that modest figure represents total profits for the last quarter of $24 million —and that is a lot of money in any language.

Side Effects of Steel Strike

It is necessary to look at companies outside the steel industry to fully appreciate the high level of profitability of the steel companies. Whereas U.S. Steel earned $24 million, **American Can** saw its earnings decline for the year to $2.42 per share from $2.78 solely because the steel strike cost the company $15 million. To point up the impact on Canco, it must be recalled that nine months earnings were $2.42, or more than the full year figure. The reasons for the fourth quarter loss demonstrate the wicked impact of the strike on innocent companies. Canco was forced to borrow enormous sums to finance its growing stockpile of inventories, and to pay for makeshift transportation facilities that would move steel and tinplate from various parts of the country to other areas in order to keep some production flowing. Without the steel strike, it is probable that American Can's earnings would have reached $2.90 per share.

Not all companies provide an easy dollar and cents measure of the impact of the steel strike. Nevertheless the effects can be read in their annual figures. **Allied Chemical** scored an impressive recovery from the 1958 recession, earning $2.51 per share on the newly split shares against $1.72. Nevertheless, without the steel strike the record would have been even better. Sales rose 7 percent in the fourth quarter but earnings declined 4 percent, as the company was forced to scrounge for raw materials usually supplied by the steel mills. Especially hard hit on this score was the company's napthalene reserves, since this raw material for plastic is produced from the coal tar derivatives that are by-products of the steel making process.

Pretty much the same troubles beset **Monsanto Chemical.** Sales rose to new record levels and earnings climbed impressively from $1.55 per share in 1958 to $2.12 in 1959. But napthalene shortages cut down the output of anhydride plasticizers in the last quarter, and added significantly to the cost of whatever was produced.

Profit Outlook in 1960

Both Allied and Monsanto appear headed into excellent first and second quarters in 1960, but the same long term clouds overhang their outlook as for other major segments of the economy. After the initial period of inventory building is completed industrial output will slow down, even in the normal course of events. At the moment, however, there are signs that automobiles are not selling with the alacrity that was expected, while appliance dealers are experiencing resistance from buyers, and there are other vague but troublesome indications of lower economic vitality that have not been anticipated looking to the months ahead.

It is perhaps too early to draw definite conclusions regarding full 1960, but at the moment the economic uncertainties, together with the persistent weakness in the stock market since the turn of the year, can be construed as a warning sign to look both ways before assuming that the road is clear ahead.

Other Major Industries

In this report of the earliest returns available we still do not have broadscale representation from several key industries. Nevertheless patterns can already be discerned which should hold as additional reports appear. In the oil industry, for example, well publicized difficulties have not prevented earnings improvements, again reflecting the flexibility of sound management.

Standard Oil of New Jersey, in fact raised its sales to over the $8 billion mark and managed to post an 11 percent increase in earnings to $2.91 from $2.72 a year earlier. This performance is impressive in light of the price weakness of several key products, the disruptions caused by the finished product glut in domestic markets, and the troubles the industry has been having in both the Middle East and Latin America during the last year.

While the key to Jersey's success is greater operating efficiency, the good earnings also resulted from a reduction of expenditures for exploration. It should be realized by investors that these costs are always written off in the year they occur and

thus reduce reported profits. When these outlays decline, current earnings benefit.

Instead of increasing its exploration activities, Jersey is devoting more attention to cost reduction devices, new product development and improved marketing efficiencies, in line with management's alertness and flexibility. Sharply depressed in price and currently out of investor favor, the stock is nevertheless a sound holding to be retained by conservative investors.

In the electrical industry, returns are still spotty, but **Westinghouse** continued its record of year-to-year improvement, which was interrupted only during the long-drawn-out strike of a few years ago.

There is no quarreling with success, and yet there are signs that for Westinghouse, too, a period of earnings stability rather than strong growth lies ahead. Granted some disruptions from the steel strike, the fact still remains that appliance sales, which account for a good share of the company's net profits, were not seriously affected.

Despite a good year, however, earnings topped the previous year only because of a tax refund. Sales rose in 1959, and per share net climbed to $2.43 from $2.13 in 1958. Without the refund, earnings would have been $1.99, or a decline for the year.

Uncertainties in the appliance outlook next year may be offset by the high level of the company's generating equipment business. In any event, Westinghouse has been through a period of strong earnings recovery, which has been reflected in a rapid rise in the price of the stock. It is doubtful that the advance can be sustained without more impressive earnings growth than appears in the offing now.

Some Outstanding Reports

Despite the impact on business of the steel strike there are several companies that reported sharply higher earnings in 1959. **Libbey-Owens-Ford,** which should have felt the effects of the auto slowdown during the strike nevertheless more than doubled last years earnings and topped the previous record high by almost 50 percent. Per share profits amounted to $5.13 compared with $2.05 a year earlier and approximately $3.50 in the boom year of 1955.

Numerous factors account for LOF's exceptional year, including the fact that Pittsburgh Plate Glass, its major competitor, was crippled by a strike for several months. But foremost was the company's amazing jump in profit margins, from less than 10 percent of sales last year to 17.5 percent in 1959. For several successive years now, we have been pointing out LOF's excellent profit margins, but this year the full impact of their efficient operations was translated into visible earnings.

Should a reasonably good automobile year materialize, LOF, which is the principal supplier for General Motors and the independents, should have another good year. Undue optimism should be tempered, however, by the fact that foreign glass is now available in the midwest via the St. Lawrence Seaway, while the company will face new competition later this year when the French controlled American-St. Gobain Corporation opens its new glass plant in the auto producing areas. LOF is sound and well managed, but new challenges are arising that will bear watching.

Also high on the list, again, of outstanding performers is **International Business Machines.** This prime growth company raised its per share earnings to $7.97 from $6.93 in 1958. Moreover, the betterment was accomplished despite the loss of $15 million in rental revenues from former lessees who chose to exercise their option to purchase previously leased equipment.

Aside from its top performance, however, IBM is not without problems. The rest of the business machine industry, though late in starting in pursuit of IBM, is now making the field much more competitive. Furthermore IBM has found it wise to cut back on capital spending since competition is beginning to lower the return on newly invested capital.

By all odds, IBM is tops in its field. Though dividends are small they have been raised consistently as earnings have improved. Again, in the light of its excellent management, this is a stock that should be held.

Other Major Companies

The steel strike was not the only disruptive labor factor in the economy in 1959. In fact, the copper strike, which did not have such wide repercussions on our economy, nevertheless did affect the position of the various copper companies. **Kennecott,** however, again demonstrates the stamina which comes of good management. Prolonged strikes both at home and abroad plagued the company all year, culminating in an actual loss from operations during the fourth quarter. But despite these adverse developments, earnings at $5.19 per share were not far behind the $5.44 earned in 1958. By contrast, also, Kennecott earned almost $2.00 per share in 1958's final quarter compared with a loss in the same period in 1959.

In recent weeks the industry has made good progress toward a labor settlement in the U.S. but difficulties abroad are less certain to be resolved. At the present level of copper prices, highly efficient Kennecott should be able to provide dividend stability for its shareholders. Whether prices can rise enough in the period ahead to provide substantial earnings betterment, is problematical however.

In the building industry strikes also tended to offset some of the benefits of high building activity, but **Johns-Manville,** one of the nation's leading producers of building materials was nonetheless able to score impressive earnings despite long strikes at two of its own plants. Earnings rose to $3.74 per share from $2.83 in the recession year 1958. Equally significant, profit margins expanded to almost 10% of sales, indicating that J-M has benefitted substantially from its cost reduction programs.

It is also of interest to note that the company's newly acquired glass fiber business, purchased at a very high price, is now contributing to earnings very substantially.

In the year ahead, all the producers are faced with the possibility of a slightly lower home building market as a result of the excessive tightness of money. The outlook must remain in doubt, therefore, although Johns-Manville should have little trouble meeting its modest dividend requirements.

Some Declining Eernings

The overall level of *(Please turn to page 591)*

Comparative Sales, Earnings & Net Profit Margins of Leading Companies

	Net Sales 1958 (Millions)	Net Sales 1959 (Millions)	Net Profit Margin 1958 %	Net Profit Margin 1959 %	Net Per Share 1958	Net Per Share 1959	Net Per Quarter 1959 1st	Net Per Quarter 1959 2nd	Net Per Quarter 1959 3rd	Net Per Quarter 1959 4th
Air Reduction	$175.3	$200.6	7.6%	7.4%	$3.47	$3.81	$ .97	$1.04	$ .93	$ .87
Allied Chemical	635.5	719.6	5.3	6.9	1.72	2.51	.56	.84	.59	.52
American Can	1,037.0	1,107.3	4.4	3.7	2.78	2.42	.45	.83	1.14	—
American Motors	470.3	869.8	5.6	6.9	4.65	10.16	3.56	2.10	2.71	1.80
Armco Steel	867.4	1,022.4	6.6	7.7	3.89	5.19	1.43	1.99	.60	1.17
Armour & Co.	1,850.4	1,969.8	.2	.7	1.08	2.73	—	.88[1]	—	1.85[1]
Avco Corp.	282.9	306.0	3.3	3.1	1.02	.95	.13	.28	.20	.34
Bendix Aviation	623.7	689.7	3.3	3.9	4.18	5.37	1.02	1.13	1.34	1.88
Carrier Corp.	252.5	263.4	2.9	3.1	3.27	3.62	.09	1.03	1.48	1.02
Crown Zellerbach	474.3	527.3	7.0	7.2	2.32	2.76	.58	.77	.68	.73
Diamond Alkali	114.1	137.8	5.6	8.2	2.32	3.90	.76	1.10	1.12	.92
Douglas Aircraft	1,209.9	883.8	1.3	3.8	4.41	d8.86	d1.10	d2.83	d2.80	d2.13
Dresser Industries	225.2	232.0	4.3	3.9	2.14	1.95	.39	.63	.42	.52
Ferro Corp.	56.3	63.8	3.5	5.2	2.76	4.45	1.09	1.39	1.10	.87
Firestone Tire & Rubber	1,061.6	1,187.8	5.0	5.4	2.08	2.44	.55	.60	.57	.72
Hercules Powder	236.5	233.6	7.4	8.2	2.04	2.73	.57	.79	.71	.66
Hooker Chemical	125.5	149.8	8.4	8.9	1.43	1.80	.43	.50	.42	.45
Ideal Cement	97.8	108.5	18.9	18.9	1.66	1.83	.34	.55	.56	.38
Inland Steel	661.2	713.2	7.2	6.7	2.77	2.77	1.03	1.40	d .43	.78
International Business Machines	1,171.7	1,309.7	10.8	11.1	6.93	7.97	1.58	1.91	2.06	2.42
Johns-Manville	331.7	377.5	7.0	9.3	2.83	3.74	.56	1.24	1.01	.93
Kaiser Aluminum & Chemical	408.5	435.5	6.1	5.1	1.43	1.17	.17	.52	.05	.40
Kennecott Copper	395.3	437.2	15.0	13.1	5.44	5.19	2.03	2.29	.99	d .12
Koppers Co.	258.9	240.2	2.5	2.2	2.62	2.10	.38	.62	.49	.61
Libbey-Owens-Ford Glass	216.9	306.7	9.8	17.5	2.05	5.13	1.64	1.52	.87	1.11
Monsanto Chemical	714.4[2]	811.3[2]	6.0	7.6	1.93[2]	2.66[2]	.69[2]	.79[2]	.65[2]	.57[2]
Morrell (John) & Co.	401.6	436.3	.5	1.4	2.24	5.68	—	2.07[1]	—	3.61[1]
National Biscuit	413.1	428.9	5.3	5.7	3.18	3.57	.74	.86	.85	1.11
National Distillers & Chemical	524.3	575.5	3.8	4.3	1.76	2.23	.54	.51	.58	.60
National Steel	539.9	736.9	6.6	7.4	4.80	7.28	2.20	3.06	.36	1.66
Owens Corning Fiberglas	176.7	211.3	6.2	7.6	1.67	2.43	.38	.71	.64	.70
Philco Corp.	351.1	397.8	.8	1.8	.61	1.67	.37	.17	.46	.67
Phillips Petroleum	1,066.5	N.A.	7.9	N.A.	2.45	3.03	.75	.80	.70	.78
Rayonier	180.0	129.5	3.3	10.3	.65	2.35	.55	.64	.54	.61
Republic Steel	910.3	1,076.8	6.8	5.0	3.96	3.43	1.71	2.57	d1.59	.74
St. Regis Paper	408.6	474.0	5.3	6.0	2.41	3.00	.64	.88	.71	.77
Scott Paper	285.0	297.1	7.7	8.3	2.75	3.08	.73	.75	.72	.88
Shell Oil	1,666.0	N.A.	7.0	N.A.	2.12	2.43	.57	.57	.58	.71
Standard Oil of California	1,559.1	N.A.	16.5	N.A.	4.08	4.01	.91	.96	.98	1.16
Standard Oil of New Jersey	7,712.0	8,168.0	7.2	7.6	2.72	2.91	.78	.69	.75	.69
Stevens (J. P.) & Co.	386.3	459.4	2.8	4.0	2.60	4.52	.66	1.25	1.10	1.49
Union Bag — Camp Paper	156.9	180.8	9.9	10.4	2.13	2.57	.66	.63	.60	.67
U. S. Steel	3,472.2	3,643.5	8.7	6.9	5.13	4.24	1.86	2.64	d .69	.44
West Virginia Pulp & Paper	208.1	233.1	4.6	5.0	1.78	2.21	.52	.51	.60	.58
Westinghouse Electric	1,895.7	1,910.7	3.9	4.4	2.13	2.43	.40	.56	.62	.85
Wheeling Steel	211.0	211.6	4.0	3.3	3.69	2.53	2.08	3.16	d2.40	d .31
Youngstown Sheet & Tube	506.9	617.8	4.2	5.0	6.23	8.90	3.23	4.95	d2.06	2.78

d—Deficit.
N.A.—Not available.

1—6 months.
2—Includes dom. & for. subs. & proportionate share of 50% owned assoc. Cos.

THE FOLLY OF EASY MONEY

— Domestic repercussions and International Consequences
— The position of the European Central Banks and Japan

By JACK BAME

IN this Presidential election year, "easy" money is again being advocated as the sure-fire pep pill that will stimulate our domestic economy, and insure the growth that will enable us to outstrip the much vaunted Soviet economic progress.

This argument, generally advanced by many Democrats, has often been intelligently and successfully torn apart on all levels, year in and year out, by William McChesney Martin, Chairman of the Federal Reserve Board of Governors—himself appointed by a Democrat. This year, however, the cry for easier interest rates takes on a new and dangerous aspect if we are to maintain an equilibrium rather than add to new inflationary pressures, in the light of (1) the new era of large-scale international currency convertibility made possible by the strong post-war recovery of Western Europe, and (2) the rather uncomfortable deficit position of the United States balance of payments and short-term gold position.

The survival of the dollar itself as a leading global currency unit for financial and commercial dealings will depend, to a considerable degree, on the maintenance of a tight money policy at the present time.

In fact, it is precisely the course of judicious interest rate planning now followed by the still politically independent Federal Reserve Board, that has bolstered international confidence in the Dollar, and curtailed the previously alarming outflow of gold. *The problem of tight vs. easy money has never before been a more crucial one for us, and a possible international monetary disaster for the dollar could conceivably be invited by treating this aspect of monetary policy as a political football—or neglecting it completely.*

The unembellished facts concerning the movement of global funds—closely tied to gold flows between nations—plus the interrelationships of various countries' domestic and international economic positions —now subject us to monetary pressures that can no longer be ignored. This situation must therefore be

taken into account in all our domestic calculations—for, under present-day conditions of an expanding economy, the internal and external effects of "tight" money are of equal importance to us. Therefore, any outcry for a change to an easy money policy in this situation is inexcusable—or, even if it be unconsciously so, *is contrary to the national interest.*

THE PRESENT SENSITIVITY OF INTERNATIONAL CAPITAL MOVEMENTS has fortunately been a major factor in recent Federal Reserve actions. It is essential that there be greater understanding of the situation by the public and, more particularly, by Congress, because, since the 1958 West European currency convertibility reforms, there have been substantially increased international interest arbitrage movements. This entails day-to-day shifts of funds from one country to another, motivated by the possibility of making profits on short-term interest rate differentials.

Without going into the technicalities of operations, it will suffice to state the following example:

When there is a possibility of earning a greater return on short-term British Treasury investments in London than in New York, after fully hedging against possible fluctuations in the exchange rate of Sterling vis-a-vis Dollars through the process of "securing the rate", funds will move to London. Recently, short-term capital movements have reflected quick reactions to interest rate changes, and many hundreds of millions of Dollars are thus in a rather constant state of flux, involving monies such as the Canadian Dollar, Pound Sterling, Swiss Franc, German Mark and other European currencies.

The recent high U. S. interest rates have acted as a brake on our previously accelerated gold outflow, as foreign funds have been attracted to New York, rather than being converted into gold and moved elsewhere, as would be the case if our rates were on the "easy" side.

The European Interest Rate Picture

With the *present trend towards generally higher money rates throughout the world,* especially in Western Europe, it would be equivalent to a proclamation of financial irresponsibility to all other nations, if we were to now institute any easier money moves. At this time, about half the major European nations have increased their Central Bank Rates to higher levels than they were six or seven months ago. More will follow. In contrast to our rather deteriorated 1959 balance of payments, these countries have *improved* their international accounts, and have demonstrated unmistakably that they will *not* and cannot allow political clamors for unrestrained domestic booms eradicate their new external strength, by maintaining and tightening interest rate levels. This is a convenient point at which to analyze the position of some of our leading European friends.

The Central Bank

Britain, who raised her Bank Rate from 4% to 5% on January 21, presents the most striking example of the practicability of reacting to, and sometimes initiating, international capital movements. Although most official British statements emphasized the boom signs of the domestic economy as the key influence in raising the Bank of England's lending rate, the relatively *minor* drain on the U.K.'s gold and exchange reserves in November, December and the first 3 weeks of January *definitely* were recognized. Official English holdings of gold and convertible currencies had dipped from their September 1959 high of $3.284 billion to $2.736 billion at the end of the year. Some part of this decline was due to repayments on international obligations, but other withdrawals were clearly in evidence, though not on any major scale. *The fact that the British raised the Bank Rate a full 1% showed that London would not hesitate to protect her reserves and keep in step or lead the way in the European trend towards sound currency management policies.*

Lending Rates and Reserves of Leading Central Banks

Country	Present Rate	Gold and Foreign Exchange Reserves (million of dollars) 1954	1959
Japan	7.3%	$ 738	$1,322
United Kingdom	5 %	2,762	2,736
Sweden	5 %	470	417
Denmark	5 %	143	313
W. Germany	4 %	2,636	4,779 (Nov.)
France	4 %	1,261	1,720
Belgium	4 %	1,032	1,211
United States	4 %	21,790*	19,510*
Italy	3½%	1,041	3,167 (Sept.)
Holland	3½%	1,276	1,355

*Gold only.

West Germany had upped her Bank Rate from 2¾% in August 1959, to 3% in September and 4% on October 22, in her prime and overriding concern for internal currency stability. At the time, there was only a thin veil of a very minor decline in her approximate $4.5 billion in gold and foreign exchange reserves that served as an international excuse for the boost. *However, this action was taken and served as another unmistable sign of Bonn's defense of a strong Mark and resulted in a new flow of funds towards Germany.*

A recent 15-year, 500 million Mark internal bond issue by the German Federal government, with a coupon of 6% at 98, giving a redemption yield of 6.3%, demonstrates that the Germans are prepared to pay the going market price in order to obtain favorable public reception of longer term bond issues—and they publicize this fact to the rest of the world.

In contrast, the stubborn U. S. Congressional refusal to lift the archaic interest rate limit of 4¼% on United States long-term issues, aside

from domestic implications, represents an opposing—and very negative—sign to overseas observers, concerning our evident lack of determination to follow a policy of fiscal discipline.

Following the German discount rate hike, other Western European countries then took mostly defensive tight money moves of their own to align to the international pattern of rate realities.

Holland increased her Bank Rate from 2¾% to 3½% on November 11, 1959, even though total reserves of gold and foreign exchange had dropped only slightly from their 1958 year-end highs and were still at $1.350 billion at the end of November, not far from their peak post-war level.

Belgium boosted her discount rate from 3¼% to 4% on December 23, 1959—definitely not a politically-inspired Christmas piece of timing but purely an economic one. Total reserves were still at a comfortable $1.211 billion, although $273 million less than at the end of 1958—but still more than any other post-war year.

Sweden and Denmark also upped their discount rate levels after the German rise and are at the 5% level. We cannot ignore these shifts and our "tight" money policy is thus actually not really very tight if viewed within the overall interest rate framework.

France too, in the light of her firm "Nouveau" Franc, but plagued by political and Algerian troubles, will undoubtedly institute tighter money measures—the French Bank Rate is now 4%—if any real pressures of distrust react against the Franc.

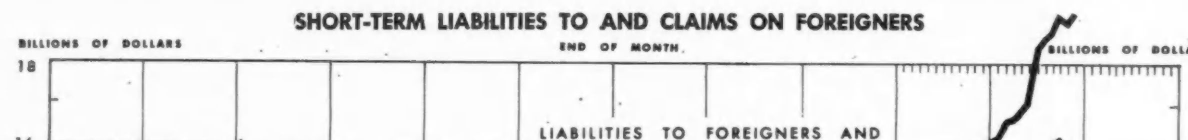
Italy and **Austria**, with discount rates of 4% and 4½%, respectively, are in extremely strong monetary shape and show signs of great solidity.

Switzerland is a special case. Her Franc, the symbol of currency stability, is not overly subject to interest rate differentials, due to many factors. The history of monetary strength, the complete freedom of financial dealings, the facilities for gold transactions and storage, the welcome secrecy afforded by the famous "numbered" and otherwise unidentified bank account—all these make for a natural haven for flight capital. The very existence of these advantages of Switzerland, represent an escape destination for nervous or "hot" money, which is all-too-temporarily invested in short-term investments in New York.

Our Position Today

The fact that gold withdrawals from the U. S. appreciably slowed down in 1959, and thus far in 1960, and that foreign short-term Dollar balances have not been withdrawn, can be attributed to the combination of maintaining a sensible interest rate level and demonstrating that we will not devalue the Dollar. *This has necessitated a high degree of resistance against domestic political opposition and various lobby—especially housing—pressures.* Despite our basically strong economic position, it is essential to maintain this confidence of other nations, from the viewpoint of continuing the important international financial and commercial status of the Dollar.

SHORT-TERM LIABILITIES TO AND CLAIMS ON FOREIGNERS



Foreign trust in us is required to prevent large-scale gold withdrawals from forcing us into policies which would hurt our international prestige, thus impairing the effectiveness of free world production and trade in general. *No country—especially the U. S.—can act without thinking of the effects of such moves on overseas areas—whether we consider foreign thinking on certain problems "rational" or not.*

Consequences of a Cut in our Discount Rate

The possibility of an important conflict between domestic and international implications of interest rate policy is not very apparent during a boom or prosperity period. Easy money, in our case, is rather hard to justify on any grounds in that situation. But we, in our free economy, have thus far not eliminated the business cycle, although we have achieved some success in mitigating its undesirable effects. There seems to be a general agreement among economic forecasters that late **1960** or **1961** will usher in some sort of a letdown in U. S. economic activity and a resultant recession. Here is where the delimma becomes acute. A *negative* solution could be presented by a coincident decline in business overseas.

If our discount rate is lowered, a renewed outflow of gold and foreign short-term capital could certainly add to our domestic difficulties and lead to drastic and perhaps unwanted measures. On the other hand, if no cut in the Federal Reserve rate were made, at a time when a declining domestic situation warranted such action, the recession could become more acute. The uncomfortable situation could be conceivably somewhat helped through the intelligent introduction of other easing actions by the Federal Reserve and the Administration. But the real danger nevertheless exists. The business situation and developments in Western Europe, relating to expansion and coordination of the Common Market and Free Trade Area and an eventual merger of the two, may affect our trade.

Developments in *Japan*—which now has an official Bank Rate of 7.3% and has made herself a real force in world trade and finance—foreshadow a period of continued growth and high level activity. Tokyo's 1959 year-end gold and foreign exchange reserves were $1.322 billion, a gain of *152%* over her corresponding 1957 figure. All these are facts, not projections or dreamy visions. These nations, now in a relatively much stronger international payments position than we are, represent a potent force for *discipline* on our part, to at least hold on to our rather tenuous payments situation, let alone improve it. Adhering to an intelligently restrictive monetary policy and avoiding any tendency towards lowering our discount rate is both a *national* and *international* necessity for now and the immediate future.

If this is done—as it must be if we are to continue the international status of the dollar as a unit of accounting and reserves—it will then be possible to give some thought to developing a new, and eventually workable, institutional framework for free world coordination of interest rate policies.

Discipline on an International Scale

The trend of common purpose is extending from the Common Market and Free Trade Area to an Atlantic Union, eventually in a link with Japan and other Asiatic areas, for the synchronization of non-Soviet economic trade and aid policies. Within such a system, nations cannot guide their discount rate policies solely on the basis of their particular domestic "growth" needs or desires, or uniquely on the consideration of their specific balance of payments problems.

Purely political domestic cries for easy money and low interest rates in a prosperity period, therefore, are put into their proper perspective of simple nonsense. The same would be true of the reverse in a recession period.

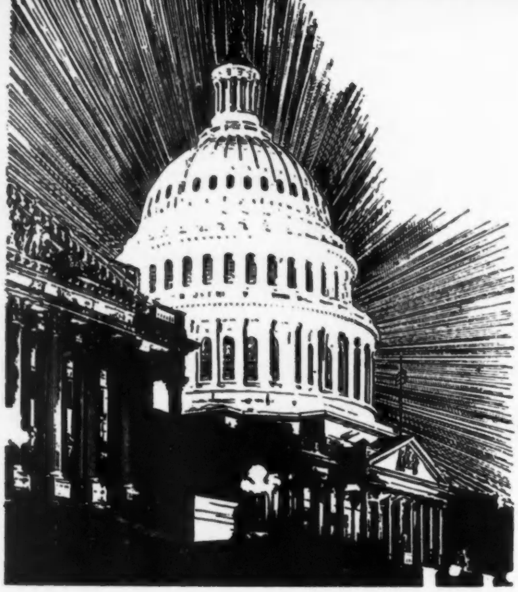
There cannot be a true cooperation of economic policies on an international scale, on the one hand, and a complete anarchy in the global field of discount rate policy, on the other. Short term movements of gold and capital are often decisive factors in shaping national policy and cannot be left to luck or individual whims or fancies. Whether the coordination of interest rate actions be on a formal level or in an informal arrangement among Central Banks and Treasuries, such an agreement would certainly minimize sudden capital and gold movements and their negative effects. An added advantage would be the resultant gaining of time to work out basic balance of payments problems intelligently rather than to take hasty and illogical actions.

These considerations do *not*, I believe, present a completely definitive answer to the globe's—or even America's—balance of payments problems. There are drawbacks, inadequacies, and both theoretical and practical loopholes. There is the possibility of worse collective international actions than those made on an individual basis. There will also undoubtedly be strong reaction against giving up some national sovereignty and sanctioning increased international controls, which would be necessary to coordinate interest rate movements on a global scale.

On the other hand, expansion of international trade at present is dependent on the use of common aid funds and channeled investments, both private and public, into desirable areas, and these actions require supra-national cooperation to a great extent. This is an effective argument for most nations who are anxious to see international commerce expanded in order to foster their own prosperity.

Conclusion

It is obvious how serious and far reaching are the effects and ramifications of but one of our monetary policy instruments—the discount rate. It is thus an unmistakable folly for partisan political considerations in the U. S. to be the primary reason for advocating or pursuing an interest rate policy which would weaken—and perhaps capsize our international position at a time when we can least afford it. It is difficult enough to deal with our balance of payments problems by fostering greater productivity, encouraging exports and trying to control both wage cost push and demand-pull inflation, without having domestic politicians putting irresponsible pressures on the monetary authorities to ease money rates. What those people think who control the movement of short term funds in the international capital markets is of much more vital concern to our nation than an uninformed and gravely mistaken plea for easy money in a period of prosperity. END



Inside Washington

By "VERITAS"

BUDGET surplus is slated for another bite of maybe as much as $400 million. National Space and Aeronautics Administration, presently down for $802 million, and due to ask a supplemental or deficiency appropriation of $23 million, has told Congress it will ask "substantial" additional funds for the coming year, primarily for further space exploration and to accelerate the high-thrust launching vehicle program. NASA big-wigs decline to give an estimate of the additional funds needed, but "educated" guesses put the minimum at $300 million, "possibly $100 million more." In deadly earnest in its efforts to get abreast of the Russians in this crucial area, NASA now believes it can "catch up" within another year—at most 18 months—if funds are made available, and if there is better coordination of Defense—Army, Navy, Air Force research. In the meanwhile, there is growing sentiment that all space and missile research be consolidated in a single agency.

WASHINGTON SEES:

Speed will be the tempo of Congress for the next 100 days—not the speed which marked the first 100 days of the 73rd Congress which ushered in Franklin D. Roosevelt and the New Deal, but a celerity which will be almost breath-taking in comparison with the past five or six Sessions.

There is leadership and rank-and-file agreement in both Parties that Congress can and should get through its business by the Fourth of July—one week before the July 11 opening of the Democratic convention in Los Angeles. The agreement, it should be said, has Administration concurrence.

The anticipated speed does not necessarily indicate undue haste which could result in loose and ill-conceived legislation. Touchy subjects, such as revision of the Taft-Hartley Act, overall tax revision, seem certain of avoidance. It is a fact, however, that Civil Rights legislation may delay the Senate for as much as two weeks.

Apparently, House Appropriations Committee has set the pace. Some several days before receipt of the President's Budget, the Committee initiated hearings on fiscal 1961 requests. Heretofore—for five years at least—July 6 was the first date an appropriation measure was reported to the House. June 20 will see the last one ready for floor action. Last year it was near the end of August before final appropriation measure reached the Floor.

DEMOCRATIC campaign strategy, now fairly well emerged, can be written in three words, "Run against Eisenhower." This, regardless of who the nominees of the two major Parties may be. This strategy, primarily fostered by former President Harry S. Truman, is of the pattern followed in the four campaigns of the late Franklin D. Roosevelt and the successful 1948 campaign of Truman. For twenty years, the Democrats "ran against" former President Herbert Hoover. Again, the Democrats prefer to run against the man out of office than the opposition candidate, almost certain to be Vice President Nixon. They won't call him an Eisenhower "rubber stamp" in just those words, but will stress that Nixon played a major role in fixing the Eisenhower policies, *ergo,* would effect their continuation. Last-minute nomination of someone other than Mr. Nixon could throw confusion into the Democratic camp, but the Truman strategy will prevail until such an eventuality materializes.

CASTRO, bearded boss of Cuba, is nearing the end of his rope, according to privately expressed opinion in reliable quarters here. They confidently and prayerfully hope this to be true, but frankly do not know if Fidel's successor will be more amenable to reason in his dealings with this country. Lurking in the minds of most is the fear that the Cuban dictator has made a secret economic pact with Russia, effective the moment we apply economic sanctions. Such an economic agreement—perhaps technical aid and equipment for sugar—possibly accounts for Castro's increasingly bellicose attitude toward the United States. Meanwhile, the Administration will "lean over backwards" to avoid an open break.

As We Go To Press

Protectionists mass forces for all-out assault on reciprocal trade agreements. This, despite aversion of House Ways & Means Committee to general revision of the Revenue Code, or to any overhauling of tariffs until next year. Armed with documentation of varying damages to 120 U. S. industries – ranging from simple wood clothes pins to heavy-duty electrical equipment – the anti-reciprocal trade forces feel that an election year is time to strike for their cause. Every allegedly damaged industry has one or more supporters in Congress with geographical distribution broad enough to get overwhelming support.

Pointed up will be three "trouble spots" in the entire reciprocal trade program: Cost differential between U. S. producers and their competitors abroad, with accent on high labor costs here vs. lower wage standards in other countries; Technological advances by other countries, advances financed by this country under the euphemistic Point IV program; and ever-widening wage differentials in which we lose ground as man-hour productivity here lags behind domestic wage increases forced by union demands.

Also to be accented is the fact that foreign nations, primarily as a result of our largesse – cash and technical – are able to supply their domestic markets with products previously bought here, thus creating the import-export imbalance which now threatens our Fort Knox gold reserves. Generally, the protectionists have arguments with "political appeal," but to forecast their success would be folly. Time is too short as Congress looks toward early adjournment for the two nominating conventions.

Polaris missile range can be doubled according to inside navy sources who say that present 1,500-mile range might be inadequate under certain war-time conditions. Describing the potential increase as "relatively easy," a top Navy figure says that the increased range is primarily a problem of perfecting solid-propellant fuels for initial impulse take-off. He declares the doubled range would enable the Navy to strike Moscow from a position in the South Atlantic, adding that it could be launched from surface craft as well as from submarines. The new idea may be explored under the President's proposed one-third increase in missile research.

Navy's problem of solid propellant missile fuels is not being neglected by the Atomic Energy Commission which, "on its own," is quietly exploring nuclear energy – primarily fissionable materials – as source of power for future long-range (ICBM) projectiles. AEC, one of the most "hush-hush" agencies in Washington, neither confirms nor denies the report.

Elsewhere on the Navy front, a fully transitorized submarine torpedo fire control system has been perfected. It can go into action instantly, uses a minimum of space and can be one-man operated in an emergency. Based on radar and sonar, it can, in a matter of seconds, determine a target's distance, direction and speed, thus giving the operator all he needs know for a sure hit.

National Labor Relations Board gets active in explaining new labor laws, including the Landrum-Griffin Act and amendments to the Taft-Hartley law. Almost daily press releases reveal some "new angle," while two 900-plus page volumes are now available from the U. S. Government Printing Office in Washington. Both volumes are exhaustive in their treatment of the legislative history of the Labor-Management and Disclosure Act of 1959 (Landrum-Griffin), and are library "musts" for the executive dealing with labor organizations. Price, $6.00 per volume.

On another Labor sector, the top-level labor-management conference (probably at the White House), suggested by President Eisenhower in his State of the Union Message, is now in the formative stage and moving somewhat slowly toward realization. Labor

Secretary Mitchell is working out details, but is uncommunicative as to a time. Other Labor Department figures incline to say it will be as far away as late April or early May. They would like it to occur at a time when the President can be present – not as an active participant, but to spur both sides to achieve a workable formula that would avert future economic dislocations, such as that which stemmed from the steel strike.

Many details have to be worked out. Who to invite, what industries are to be represented, who in the AFL-CIO hierarchy will have the seniority position, public representation (if any). Labor Secretary Mitchell, of course, will be the top government figure and, presumably, could be the public's representative. Feeling in Labor Department, however, is that someone outside of government, labor or management should "sit in." He (or she) could be any one of dozens of university figures scattered about the country. Look for a preliminary announcement about March 1.

Weapons research and development costs are high, may amount to as much as 60 percent of the weapon's total production cost. This applies to intercontinental and other long-range missiles. By comparison, the intercontinental bomber – no doubt the last large military aircraft produced in quantity – had a research and development cost of 20 percent, one third the R&D cost of the super-duper weapons. Difference lies in mass production of aircraft, "tailored" production of the missiles, and then only in limited quantities. Further, each missile fired, although identical with a previously successful one, may have "bugs" requiring additional research.

New hurdles loom for President's foreign aid requests as White House "sits on" confidential report on waste and extravagance in Viet-Nam. Irked by the Administration's secretiveness, Senate Permanent Investigations Subcommittee of Government Operations Committee, has embarked on a sweeping (and unheralded) probe of foreign economic aid, with particular emphasis on help for Latin American countries. Already turned up is waste, extravagance and mismanagement of funds for Bolivia. But this is just a starter." Subcommittee investigators have quietly amassed damaging information on other Latin aid programs – will make their revelations before Foreign Aid appropriation bill comes up for debate. Certain to come are (1) A slash of near $300 million from the Budget request, and (2) a Congressional "watch dog" Committee to closely eye all economic aid to other countries. There will be Administration resistance, of course, but White House will be forced to "take it or leave it" lest a veto cancel all aid and carry the problem over to the next Congress.

White House and State Department keep fingers crossed on Algeria. This despite the apparent de Gaulle victory of Jan. 30-31. Top figures in Washington, those in a position to know, describe the whole Algerian problem as "mercurial and subject to almost overnight change." If de Gaulle prevails in Algeria, well and good, but if there are fresh outbreaks between now and the Summit Conference, "trouble and plenty of it." The French President probably would not ask a postponement, but his preoccupation with his North African problem might detract from his effectiveness as a free world participant. However, if this looms as a possibility in the French President's mind, he is certain to ask for a delay of indefinite duration, according to close observers of Foreign Affairs. Although presently regarded as the "difficult" member of the "Big Four" western powers, de Gaulle – and that includes all of France – is considered an "essential ingredient" to the Summit meet.

Federal regulation of highway traffic looms. By regulation is meant speed limits, load limits, even hand and light signals for turns. National Committee on Uniform Traffic Laws and Ordinances, really an arm of the White House, long ago drew up recommendations for a "Universal Traffic Code." Some States adopted it in whole or in part – mostly we still have a continental (48-State) hodge-podge of "rules of the road." Now, with Uncle Sam putting up billions of dollars every year for highway improvement, it may be possible for the Federal Government to move in, by legislation, and lay down a highway safety and traffic code. The idea has some Congressional support even though it would be a further step toward centralized control of "just about everything."

CONTRASTS IN PROGRESS
Between COLOMBIA and VENEZUELA

By JOHN H. LIND

COLOMBIA and Venezuela are prime examples of single-commodity economies. In Colombia coffee is king and in Venezuela it is oil. And any fluctuations in the world markets for these commodities reverberate in greatly magnified form in the economies of the two countries. Thus, sometimes they are swept to a momentary crest of unprecedented prosperity, only to be plunged into near bankruptcy by economic developments completely outside their control. Both countries have recognized the undesirability of this state of affairs. Hence both are making strenuous attempts (1) to diversify their economies by building up other industries and (2) to stabilize the international markets for their key commodity.

In the past year Colombia and Venezuela have had sharply differing degrees of success in these endeavors. This, together with somewhat different political climates, has caused rather sharply contrasting overall trends in the two Republics.

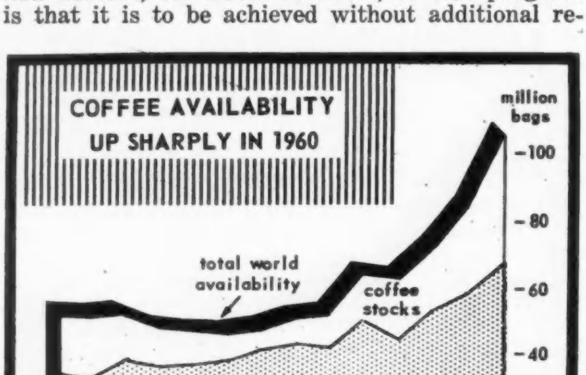
Colombia

In Bogota economic confidence reigns supreme, at least for the moment. Everybody agrees that 1959 was a very good year, and most people feel that 1960 will be even better. There are two main reasons for this dramatic improvement in a country which four years ago was unable to pay for even the most essential imports. One is the economic policy of President Albert Lleras Camargo who took office in 1958 and the other is the international coffee agreement which was greatly strengthened last year with the aid of the United States.

When President Lleras was inaugurated, Colombia was in a recession and inflation was threatening to get out of hand. The military dictatorship of Gen. Rojas Pinilla, overthrown in May 1957, had left nearly half a billion dollars in foreign commercial debts, while falling coffee prices were cutting into the foreign exchange supply. In this situation the Lleras government, despite political agitation, decided to follow a stern program of austerity and retrenchment. At the same time it brought about the restoration of political stability, following many years of severe political unrest in the rural areas which had greatly discouraged domestic trade.

One of President Lleras' initial tasks was to draft the first firm economic policy after many years of hit-or-miss emergency measures. The immediate target of the plan was to stabilize the level of imports in order to reverse the outflow of monetary reserves. This was achieved both in 1958 and in 1959 when imports amounted to only $ 400 and $ 440 million respectively, compared to more than $ 500 million in each of the four previous years. The long-range aims of the economic policy, however, go far beyond the curing of currency deficits by means of imports restrictions.

The government's new economic policy is designed to channel investments from speculative to productive business, to diversify Colombia's trade, reducing her dependence on coffee for 80% of foreign exchange and to substitute domestic products for imports, especially food and raw materials. A new feature, for South America, of this program is that it is to be achieved without additional re-



course to socialistic measures. This has been made clear by the chief of the National Planning Department, Harvard-educated economist Jorge France Holguin, who describes himself as "a conservative in that I want consciously to avoid socialism in Colombia."

The first results of the plan may be seen in the effect which the imports restrictions have had on expanding local production.

In industry, Paz del Rio steel mill showed a 61% gain in production. Steel imports were thereby reduced to about 150,000 tons. The big success story in *agriculture* was cotton production, which reached 65,000 metric tons in 1959. The year before, Colombia grew only 28,000 tons and imported 8,000; now there is a 13,000 ton surplus to be stockpiled or exported. In the *oil sector* there was also a significant expansion. Crude oil production averaged nearly 150,000 barrels daily, an increase of 15% over 1958. Exploratory drilling has also increased perceptibly, with a total of 20 companies actively looking for new oil deposits. And refinery output has reached the level where Colombia no longer imports any oil products but has become South America's second largest oil exporter.

Of course, none of these encouraging developments have been sufficient to take the Colombian economy out of the woods, so to speak. Thus, the increase in gold and foreign exchange reserves by $ 85 million to $ 223 million must be balanced against the fact that foreign short term debts in excess of $ 200 million will have to be repaid during the next three years. And the good feeling engendered by the small rise in the cost-of-living index last year (5.4%, compared to 9.7% in 1958 and 18% in 1957) must be tempered by the prospect that the full effect of the inflationary price rise prior to 1959 is yet to be felt on wages and production costs. Furthermore, labor problems are likely to continue to be as serious as in 1959, although the Government is trying to ease the situation through social legislation and housing projects. Moreover, Colombia faces the task of maintaining the momentum of its economic growth in order to raise the living standards of its population of 14 million people which is increasing by more than 300,000 per year.

The solution of these problems will depend largely on Colombia's coffee sales. For, despite the progress in diversification, for the foreseeable future only coffee exports can finance the bulk of the country's industrialization. Last year, the coffee price averaged 45c per pound which was lower than in 1958. Yet, Colombia exported a record volume of 6.4 million bags during the last marketing year (October 1958-September 1959), compared to 5.3 million in the previous year. The higher volume more than offset the lower unit price so that official foreign exchange income from coffee export rose by 17%.

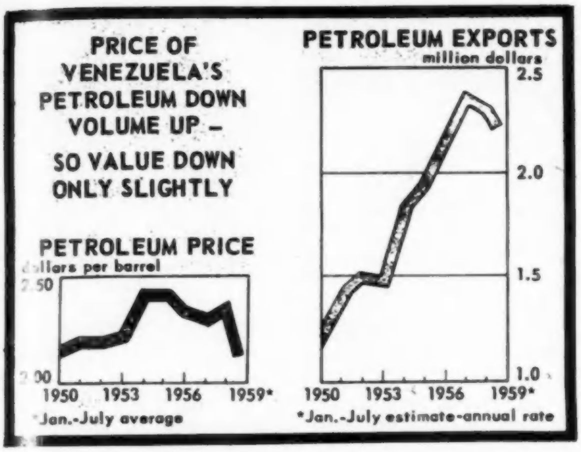
It is doubtful whether Colombia can repeat this feat in the current marketing year. World coffee stocks are continuing to mount, since production is still outpacing consumption. True, the new one-year world coffee agreement signed last September has prevented the excess stocks from causing a major price depression by assigning export quotas to each producer, including the African nations which previously had remained aloof.

However, Colombia's coffee output this year will amount to 7.2 million bags, or 15% more than last year. With an export quota of only 6 million bags,

U. S. Direct Investments in Colombia
(Millions of Dollars)

	1956	1957	1958
Total Investment	298	297	289
petroleum	107	106	91
manufactur.	67	62	66
public util.	43	43	45
trade	45	46	49
Earnings	23	17	2
undistrib. prof.	1	—9	—7
income	22	26	8
Net outflow of capital	24	9	—2

SOURCE: U. S. Dept. of Commerce.



the current unsold stocks of 4.5 million bags from previous harvests may soon swell to the equivalent of a full year's crop unless new markets, outside the ordinary trade channels, are found. One such prospect is a local brewing company which will soon begin manufacturing a carbonated coffee beverage for both domestic and export markets. More important are the attempts to use coffee for barter agreements. The first fruits of this policy arrived recently in Colombia in form of 600 Israeli jeeps. Two more coffee barter agreements were signed last November, one with a company in Tokyo for telephone cables and one with the Soviet Union for merchandise valued at $ 1 million.

If such measures will succeed in maintaining Colombia's coffee exports at a high level for the next few years and if, at the same time, imports of consumer goods can be kept relatively low, while the present policy of encouraging capital imports continues, the country could in less than a decade achieve a degree of permanent economic stability which it has never known in its past.

Venezuela

Venezuela, whose first democratically elected government in its history was inaugurated last February, is still paying for the costs of dictatorship. On the surface it may even appear as if dictator Jimenez had managed to maintain a sounder economy than Senor Romulo Betancourt, his democratic successor. However, statistics only give facts and not the causes behind them. And the facts are that after years of boom and extravagant spending, Venezuela is having to trim her sails to the cold wind of financial stringency.

This is the main reason for last year's deficit in exchange operations and, above all, for the current budget deficit. For the new government has had to face obligations and commitments which were incurred at home and abroad by General Jimenez to the tune of $ 1.4 billion! These obligations could have been met without recourse to a deficit budget, according to the government, but this would have implied a sharp contraction in the rythm of government spending.

The repayment of some $ 800 million of these obligations has had much to do with the slowdown in some sectors of the economy. At the same time, some artificially inflated and speculative elements in the economy have been purposely depressed, particularly in the real estate and construction sectors, and the impact is being felt throughout the country.

Unemployment in Caracas has grown and there has been some flight of funds. Most urgent of all, the dollar reserves have been weakened to the point that the possible devaluation of the bolivar, some time ago regarded as one of the soundest currencies in the world, was rumored last fall. However, the latest constructive steps taken by the finance minister to curb the decline in reserves will probably suffice to remedy the situation. His most important measures in this connection were the tightening of credit and the imposition of tariffs and sales taxes on various imported non-essential goods.

To help meet the deteriorating financial situation the government negotiated a $ 225 million loan from U. S. Banks, a year ago. However, for political reasons the loan was not taken up by the Betancourt government which came to power a month after the loan agreement had been concluded. Recently, the government took a novel step in acquiring outside funds. It sold about $ 90 million worth of treasury bills to several New York banks

Venezuelan Oil Production

(Daily average, in barrels)

Companies	1956	1957	1958	1959
Creole	1,083,700	1,148,400	1,071,100	1,112,700
Shell	690,200	851,600	681,400	801,100
Meneg.	364,700	404,100	388,900	362,500
Mobil	97,100	115,700	127,600	111,400
Richmond	61,700	92,000	75,200	51,800
Sinclair	29,100	29,400	61,500	47,200
Texas	47,100	45,200	50,900	54,900
Petmer	24,100	28,400	34,000	31,800
Varco	20,100	24,900	27,900	25,800
Colon	20,100	22,300	22,200	19,900
Superior	—	700	26,300	15,500
Phillips	11,100	14,000	11,600	24,400
Ven-Sun	—	100	12,100	37,900
San Jacinto	—	—	8,700	32,500
Talon	2,700	2,200	1,500	1,300
Signal	—	—	3,200	24,500
Totals	2,456,800	2,779,300	2,604,500	2,755,400

and asked the major oil companies in Venezuela to buy them back from the banks and use them in payment of Venezuelan tax obligations. The oil companies agreed, thereby giving the government, in effect, an advance on its oil revenues.

However, it should be made clear that the government's weakened fiscal situation has not caused a deterioration of all sectors of the economy. Thus, iron production (all owned by U. S. concerns) at approximately 16 million tons, stood at an all-time high in 1959. Local industries also showed important gains, while both wholesale and retail sales were ahead in all items, except luxury goods.

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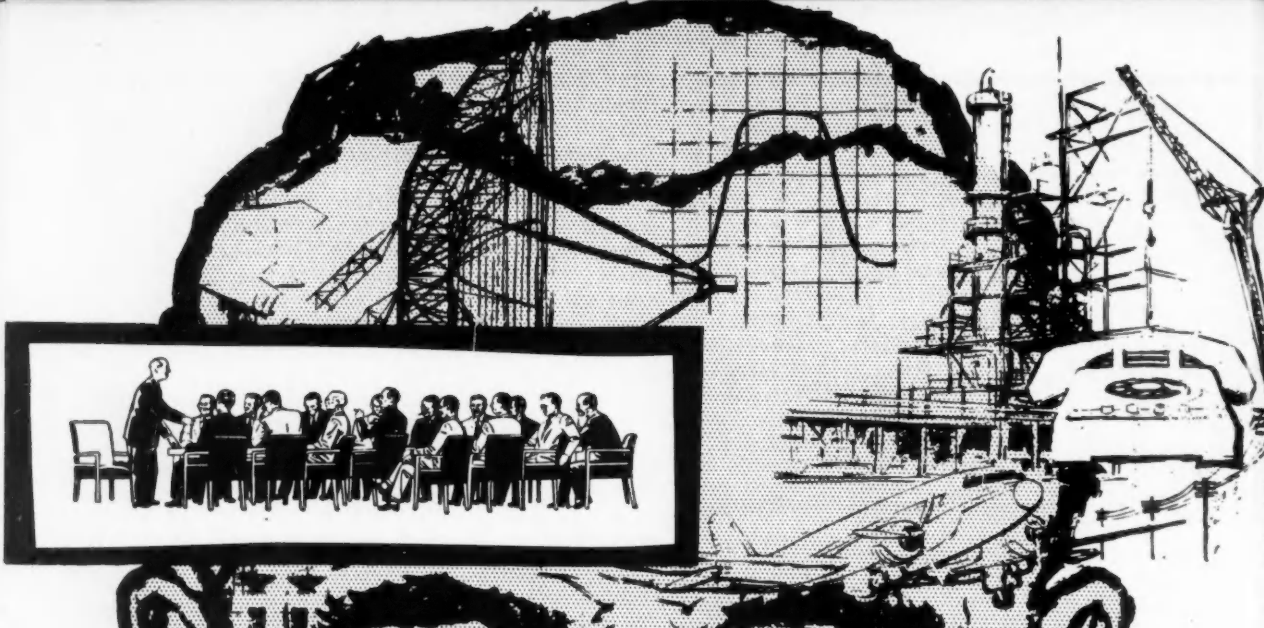


WIDELY HELD STOCKS NOW DISTURBING INVESTORS

— Off substantially from 1959-60 highs

— Fundamental reasons for their decline — where they stand today — and what chances for a come-back

By PAUL J. MAYNARD

VETERAN observers of the stock market recognize that, in addition to death and taxes, there is a third certitude of life, namely change. Just as surely as there are tides which rise and fall in the ocean, there are ebbs and flows in the fortunes of corporations and in the esteem which investors will hold the shares of those corporations. As our economy becomes more complex, the changes seem to develop with increasing rapidity. Thus, in many instances, yesterday's favorite has become, almost overnight, today's problem child.

In examining a group of stocks which have fared poorly in the market during the past year, certain common characteristics stand out. These generally include:

1. Past over-glamorization of some phase of the Company's activities, resulting in a high degree of inflation in the price-earnings ratio. In other words, earnings prospects were over-discounted in the price level to which the stock rose. Of course, it is possible that the present situation may be only temporary and that eventually the earnings level reached will justify the peak prices paid for the stock. But how long will it take?

2. A second common feature of stocks which have come upon hard times is over-dependence of the company on a single customer (usually the government) or on a single product or small group of products. Lack of diversification can cause trouble since government agencies have been known to make sudden changes in plans.

Furthermore if a Company's product or service is related to some specific phase of the economy or to some other business, the Company's fortunes (and its stock) will be dependent upon factors beyond management's control.

3. Thirdly, increased competitive pressures, resulting in shrinking profit margins have been a common factor in stocks which have performed poorly.

4. Finally, there may be changes in prospects occasioned by such factors as unfavorable political action, legal problems or management difficulties. In the final analysis, market prices of stocks are

related most closely to earnings and dividends actual and prospective. Prospects or potentials often are given greater weight than existing or past earnings records. This is where investor psychology comes into play.

First the buyer of the stock of a given company will satisfy himself as to what earnings he thinks can reasonably be projected. Then he has to make up his mind about the capitalization rate to be applied to such earnings. It is the composite of the earnings and the price-earnings ratio which determines the market level. Generally if earnings tend to exceed expectations, not only does the base figure rise but the multiplier will tend to go up simultaneously. On the other hand, if earnings are disappointing, the price-earnings ratio will tend to fall, exaggerating the rate of decline in the stock.

In the accompanying table are listed 17 stocks which, for one reason or another, appear to have lost a substantial part of their former appeal to investors. In the belief that their unsatisfactory market action during the past year may be creating worries or doubts in the minds of their owners, this article is written. The purpose is not to attempt to set at rest all doubts or to tell holders what action to take. The intention rather is to try to set forth what seem to be the reasons for the decline in each case. If the investor understands the reasons and is armed with a few facts he may then be in a better position to make an intelligent decision concerning the action to take at this time.

Brief comments on these individual situations follow:

Boeing Airplane Company — Although this Company has maintained a high level of activity, its earnings have dropped from a level of around $5 per share to close to $2. Large charge-offs of initial production costs, including some inventory write-offs in commercial planes have contributed to the poor earnings showing. The '707' jet has been successful and is now widely used by many airlines. But Boeing is still largely a defense stock and its problems are related to this situation. The Company, and the present earnings situation may well be corrected eventually.

Hoffman Electronics, North American Aviation and Raytheon Corporation are three other companies whose business is heavily weighted on the military side. Like **Boeing,** what is happening to them is illustrative of the special hazards of any defense stock. **Hoffman** has been strong in the military phase of its business but its consumer lines have tended to sag. Hoffman Electronics also has a growing volume of semi-conductor business and holds major contracts for the production of air navigation equipment. Prospects favor eventually higher sales of its consumer products including television sets, and stereophonic high-fidelity phonographs. Despite the recent cancellation of its Air Force contract for the F-108 long range interceptor, **North American Aviation** continues to have a strong position in aircraft, rockets and guided missiles and is well prepared to play a major role in future defense and space programs, whatever the allocation of funds. Although North American Aviation Company's military plane output is declining, it still holds contracts to develop the B-70 supersonic intercontinental bomber. This should result in increased sales when production is attained a few years from now. The company is also well represented with several new weapons. Important in this respect is a $102 million contract awarded in January 1959 to develop a rocket engine with up to 1,500,000 pounds of thrust for space vehicles. **Raytheon** is also heavily involved in missiles and military electronics. Its commercial business amounts to only about 15% of its total. How great the recent loss of their top extcutive to another company will be, remains to be seen. Actually, Raytheon's backlog of government orders at mid-1959 was in excess of $400 million, up from $330 million at the end of the first quarter and $280 million at the 1958 year end. The Company has underway an extensive cost-reduction program which is expected to result in increased margins of profit. First quarter results for 1960 should show a favorable comparison with earnings in the 1959 first quarter. Military demand for the Company's radar and missile equipment is expected to continue for some years to come. In July 1959 the Company announced plans to construct a new large plant in Maine to handle its rapidly growing output of transistors, diodes and rectifiers. This plant is scheduled to be completed around July of this year. Of the four companies herein mentioned in this group, **Boeing** and **North American Aviation** seem to be most strongly situated for comebacks.

First National Stores and Great Atlantic and Pacific Tea Company — These two companies represent successful grocery chains whose stocks have had a reaction from the heights to which grocery chain stocks generally rose in the earlier stages of the bull market when the emphasis was on stable stocks with an improving trend. The extended strike early in 1959 was particularly harmful to the Great Atlantic & Pacific Tea Company. However, the latter recently increased its cash dividend rate from 20¢ quarterly to 25¢ quarterly plus a 3% stock dividend. A 34% working control of Great Atlantic & Pacific Tea Company is held by the Hartford Foundation. Finances of both A & P and First National Stores are strong, with common stock their only capitalization. Sales of both companies currently are moving ahead rapidly. Both **First National Stores** and **Great Atlantic & Pacific Tea Company** have converted large percentages of their stores to supermarkets. The figure is 92% for First National Stores and 75% for Great Atlantic & Pacific Tea Company. Both of these companies are doing well currently and their stocks may regain some of their favor as the accent returns to stability as a desirable feature for stock investment.

Dresser Industries and Skelly Oil — While these two companies are not in the same business, the activities of Dresser Industries are so closely related to oil well exploration and drilling that its fortunes are definitely tied in with those of the petroleum industry. The cutbacks in Texas allowable drilling days and the decline in domestic oil well drilling generally have been the chief adverse factors in Dresser's business and prospects. Foreign activity, however, has increased from 11% of 1950 sales to 30% of 1958 sales and provides a basis for future recovery in addition to eventual betterment of the domestic

oil inventory situation. Termination of merger negotiations between Skelly and Tidewater in September 1959 postponed indefinitely the possibilities of bringing the two companies together. This was a disappointing development for Skelly stockholders. Both Dresser Industries and Skelly Oil may be expected to regain some of their former appeal as the inventory conditions in the petroleum business improve.

Foote Mineral and U. S. Borax & Chemical — These two companies have had the common characteristic of dependence on production and sale of a single mineral product (or a limited number of such products) with one agency of the United States Government as the major customer. The stocks of both of these companies had spectacular run-ups during their period of peak popularity. **Foote Mineral**, for example, rose from under $21 per share in 1954to over 60, and U. S. Borax and Chemical went from 31¾ to 76¾ in the 1956-1957 period. Foote Mineral has the largest ore reserve of lithium in North America, but with the expiration of its contract to supply lithium to the Atomic Energy Commission early in 1959, earnings fell off sharply to a little over $1 per share compared with $1.72 in 1958 and $1.90 in 1957. Unless the Atomic Energy Commission resumes the buying of lithium, excess capacity probably will remain a problem. Potentials of other exotic metals such as hafnium and zirconium may take some time to develop. Concerning **U. S. Borax** and Chemical, the production of boron products and potash, and the potentials of the sale of boron to the U. S. Government as a high energy fuel, have been the chief elements in arousing investor enthusiasm for the Company's stock. In August 1959 the U. S. Government announced cancellation of plans to produce a chemical fuel for bombers utilizing boric acid produced by U. S. Borax and Chemical. However, there have been steady gains in the demand for industrial and consumer boron products. Furthermore increasing efficiency of mining operations has made possible a gain in earnings. The stocks of both of these companies may take some time to regain their former popularity with investors. In neither case is eventual recovery beyond the realm of possibility but it will be a waiting game.

Georgia Pacific Company and Reichhold Chemicals, Inc. — The stocks of both of these companies rose in the 1957-1958 period and through early 1959, but have acted poorly in recent markets. The capital structures of both companies include layers of senior securities which give earnings a degree of leverage, and profit margins are narrow.

Georgia Pacific is a major producer of plywood and other forest products. The level of new housing starts is important for this Company, since a substantial part of its products is used in new home construction. With tighter mortgage credit conditions, some contraction in the number of new housing starts is expected in 1960. Earnings of Georgia Pacific have been maintained at a good level, but, to the extent that they have included capital gains from the sale of timber reserves under long term cutting contracts, they cannot be expected to merit a high price-earnings ratio.

Reichhold Chemicals, as the world's largest producer of synthetic resins for use in the surface coating field, has experienced a sharp rise in its sales volume during the past few years. However, profit margins have remained narrow, and net earnings for the common have not risen in proportion to the volume of increased business. For 1957, 1958 and 1959, estimated earnings have remained within a narrow range of 1.00 to $1.10 per share, even after including in 1959 results, certain non-recurring gains from the sale of securities and foreign assets. Although the longer range prospects for both Georgia Pacific and Reichhold Chemicals seem good, it probably will take time for both of them to develop a high level of diversified operating earnings.

American Viscose Company — This Company might well have been grouped with Reichhold Chemicals and Georgia Pacific as a producer of synthetics, affected by increasing competition and reduced profit margins. American Viscose is in the rayon production industry directly and in the nylon industry through a 50% interest in Chemstrand. The tire cord price competition between the rayon industry sponsored 'Tyrex' and nylon has narrowed profit margins for producers of both products. However, American Viscose has been broadening and diversifying its business. Cellophane now accounts for about 30% of sales, and the Company's 'Acrilan' is important in many carpet and wearing apparel items. Also through AviSun, it is a maker of polypropylene resins. The longer-range prospects for American Viscose, as it broadens its base of business in the expanding field of synthetics, are good—but not for the intermediate term.

Northwest Airlines — Basically Northwest Airlines is a well-managed air transportation company, and its stock represents a good investment in this business. However, there has been some downward adjustment in the value placed on this equity by investors. This appears to be based on the following reasoning:

1. While total earnings for 1959 are estimated at about $4.25 per share, if the income realized from the sale of flight equipment were excluded from over-all profits, and if earnings were adjusted to allow for full conversion of its outstanding convertible preferred stock, earnings would be reduced to $3.25 to $3.50 per share.
2. Although domestic growth prospects of the company have been aided by the new Twin Cities—Chicago to Florida routes, competition in the Trans-Pacific routes, which make up about a third of gross income and a half of net earnings, has been intensified.
3. A more conservative estimate of future prospects gives weight to the possibility that profit margins may be narrowed by increased competition of jets and turbo-props, with unit costs rising and load factors possibly dipping.

It remains to be seen whether the decline in the price of Northwest Airlines stock over-discounts possible unfavorable factors.

Panhandle Eastern Pipe Line — Rate problems with the Federal Power Commission appear to be the

chief cause of the recent poor market action of this Company's stock. Without the litigation involved in its rate case problems, Panhandle Eastern's stock may be regarded as one of the best equities in the natural gas pipe line field. In addition to its investment in a strategically located pipe line network, the Company has valuable investments in oil and gas reserves, and its holding of 1,500,000 common shares (14.3%) of National Distillers and Chemicals Corporation is equal on a share basis to almost a quarter of a share of its own stock. While the rate matters are in dispute, the higher rates are being collected under bond. Although it is impossible to analyze here all the factors involved in the Company's rate cases, it does not appear that the Company is earning an exhorbitant rate of return on its investment. Thus, there seems to be no reason for believing that the ultimate findings in the rate cases will do damage to the excellent equity investment represented by Panhandle Eastern's stock. However, until the decision is rendered the stock remains speculative.

Walt Disney Productions — While this Company is basically an independent producer of motion pictures for theaters and television, it also owns an amusement park (Disneyland) and derives revenue from this and other related sources. The Disney family owns or controls about 47% of the outstanding shares. For the fiscal year 1959, per share earnings declined from $2.51 to $2.15. Increasing costs, particularly higher rates of amortization of production expenses on certain pictures is resulting in narrower profit margins. Television income also is being penalized by the withholding of two or three shows by a television network. The Company recently was denied a court motion for summary judgement for the company, which sought to break the network agreement which had kept two major television productions off the air. The stock of Walt Disney Productions is an out-of-the-ordinary type of equity investment. The prospects for a company such as this are difficult to analyze since there are so many facets to the amusement business.

United Fruit Company — Few companies have had to solve so many problems in a short time as has United Fruit Company in the last few years. The Company has been hurt by political troubles in several Latin American countries, with a threat of expropriation of properties in Cuba. As if this were not enough, there have been problems of storm damages to banana crops and a decline in United States consumption of this fruit. And finally a court decision. being appealed by the Company. has ordered United Fruit to pay $4.6 million to International Railways of Central America and to pay that Company higher freight rates.

As a result of its problems. the Company omitted its dividend due October 15, 1959, breaking a 60 year record of continual dividends. The Company's management is attempting to diversify into oil, timber and commercial cattle operations, but results from this may be slow. United Fruit is financially strong, and although earnings for 1959 may approximate $1.70 compared to $2.94 earned in 1958, it is possible that a dividend on the common will be paid in 1960 at a reduced rate. Early recovery to the Company's former earning rate is not anticipated but some improvement may be expected. END

17 Stocks That Declined Substantially From 1959 Highs

	Price Range 1959-1960	Recent Price	No. of Points Decline From 1959-60 High	Percentage Decline	1959 Earnings Per Share	Price-Earnings Ratio *	Cururent Div. **	Div. Yield
American Viscose	55⅝-37	39	16	29%	$2.98	11.6	$2.00	5.1%
Boeing Airplane	46½-29⅛	30	16	34	2.00[1]	15.0	1.00[2]	3.3
Disney (Walt) Productions	59½-32½	41	18	30	2.15	19.0	.40[2]	.9
Dresser Industries	45⅞-27¾	28	17	37	1.95	14.3	1.60	5.7
First National Stores	80⅞-55	58	23	28	5.30[1]	10.9	2.50	4.3
Foote Mineral Co.	45⅝-25½	29	16	35	1.30[1]	22.3	.80	2.7
Georgia Pacific Corp.	72 -40⅛	47	25	34	2.65[1]	17.7	1.00[2]	2.1
Great Atlantic & Pac. Tea Co.	55⅜-35¾	38	17	31	2.50[1]	15.2	1.10[2]	2.8
Hoffman Electronics	37 -22¾	24	13	35	1.30[1]	18.4	.60	2.5
North American Aviation	52⅝-30¼	38	14	27	3.78	10.0	2.00	5.2
Northwest Airlines	46⅛-24	26	20	43	4.25[1]	6.1	.80	3.0
Panhandle Eastern Pipe Line	59¼-43	43	16	27	3.45[1]	12.4	1.80	4.1
Raytheon Company	73⅞-43½	46	27	37	3.89[4]	11.8	[3]	—
Reichhold Chemicals	40¼-25⅝	26	14	35	1.00[1]	26.0	.60[2]	2.3
Skelly Oil	74¼-50¼	52	22	30	5.25[1]	9.9	1.80	3.4
United Fruit	45¼-23⅛	27	18	40	1.70[1]	15.8	—	—
U. S. Borax & Chemical	51⅜-29½	35	16	31	1.29	27.1	—	—

*—Based on actual or estimated 1959 earnings.
**—Based on latest dividend reports.

1—Estimated.
2—Plus stock.
3—5% stock.

4—Ind. spec. credit of $0.88 a sh.

COCA-COLA Still The Leader —With PEPSI-COLA The Challenger

By KEN LEIGH

► As 3-for-1 split and higher dividend motivates Coca-Cola
► As Pepsi-Cola moves into high ground

ALL that glitters is not gold; and all that bubbles is not Cola. But as gold is still the basis of monetary systems, so are Cola drinks the foundation of the soft drink industry, representing as they do better than 50% of all carbonated beverage sales. And to shareholders of Coca-Cola and Pepsi-Cola, the big two of the industry, each has been an especially sweet investment in the year just ended.

Coca-Cola, on the one hand, appreciated some 20 percent in market value in 1959. In the course of events, earnings rose from $7.10 a share in 1958 to nearly $8.00 a share in the year just ended. Consequently, the company's directors jacked the traditional one dollar year-end extra to two-and-a-half dollars, increasing thereby the yearly total from five dollars to six-and-a-half dollars per share. Directors also recommended a three-for-one stock split, which shareholders gratefully approved on January 18, 1960. The new certificates, incidentally, will be distributed on February 11.

Pepsi-Cola, on the other hand, enjoyed a 17 percent rise in market value in the last annum of "the fabulous 'fifties'." Reflecting a rise in earnings to an officially estimated $2.12 to $2.20 per share for 1959, a sharp gain over 1958's record of $1.88 per share, directors at the November 24 meeting increased the quarterly dividend from 30 cents to 35 cents per share. It might be noted here that Pepsi has established for itself the rare distinction in the highly competitive soft drink industry of having increased its return to shareholders in each of the past three years.

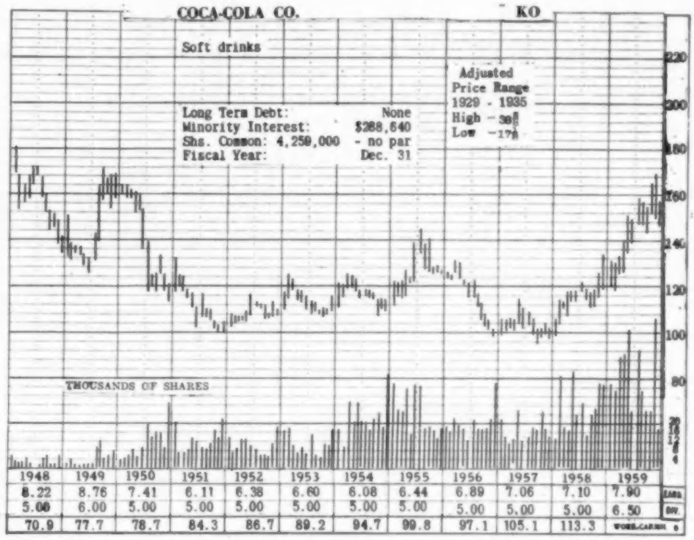
What's Ahead With the Younger Set

In 1960, the usual unanswerable question as to how hot and humid the summer will be, and also the extent and success of advertising and promotional outlays, will have a lot to say as to whether or not recent sales and earnings gains will be extended. Several strong, secular trends, however, will continue to provide a favorable business environment for the leader and challenger in the soft drink industry. In the first place, population statistics show that in 1960 there will be 36.3 million people in the United States between the ages of ten and twenty, and 70.8 million under twenty. As recently as 1957, by comparison, there were only 32.9 million between ten and twenty, and as few as 63.9 million below the legal voting age. The younger set, it should be underscored at this point, quaffs more pop per capita than their seniors, who by the time of their majority may have become intoxicated with and by drier tasting liquid mixtures.

In other words, kiddies and teen-agers this year will represent 39.1 percent of this country's total population, as against 37.4 percent in 1957. By 1965, the U. S. Department of Commerce estimates that out of each one thousand of us, four hundred and twelve will be wee ones, or their equivalent. Since these figures spell out only one thing to the managements of both Pepsi and Coke, viz, increasing per capita consumption of carbonated beverages as far ahead as a teetotaler's naked eye can see, obviously neither company can be counted on to contribute much to the control of the "population explosion."

But each may be reasonably expected to contribute gradually rising dividend income to their shareholders over the same period of time.

So much for the general background. Since wisdom descendeth not from above, it may be prudent first to describe certain similar characteristics of the two companies, before discussing the individual investment merits of each. To begin with, each produces a sweet, clear, amber colored fluid (indistinguishable in taste from one another except by connoisseurs), rather high in sugar content, but in its final form nevertheless better than 90 percent water. The flavor, incidentally, is extracted from the kola nut, prevalently found on trees of the same name in West Africa.



The **Coca-Cola Co.** and **Pepsi-Cola Co.** produce the basic ingredients of the drink in the form of a concentrate which is sold to franchised bottlers, who add sugar and water, cap the container and deliver the stuff to corner candy stores and local supermarkets throughout nearly the entire world. The final point of similarity, and the one that will provide the point of departure to consideration of individual merits, is that both have undergone important management changes in the past decade that have had decidedly beneficial effects on both recent and prospective operations.

Coca-Cola—As an example of what has taken place since new management was installed in 1955, one need look no further than the soda rack at your own supermarket. Not only does Coke still come packaged in the standard six-and-one-half ounce bottle, that was the only available size for thirty-three years, but it is now also available in the twenty-six ounce large economy size. What's more, the company is presently testing the marketing of a new sixteen ounce bottle and a twelve ounce tin can in restricted areas. An especially radical departure from the previously established one product, one container policy has been the limited marketing of five new flavors under the name of "Fanta."

Coke's new found aggressiveness is perhaps more noticeable in the rapid expansion of its *foreign business*. Within the past year alone, thirty new bottling plants were opened overseas, bringing the total to six hundred and forty-seven, most of which are financed, owned and operated by local businessmen, with Coca-Cola only selling them the basic syrup. This year's foreign expansion program involves opening twenty-five to thirty more plants.

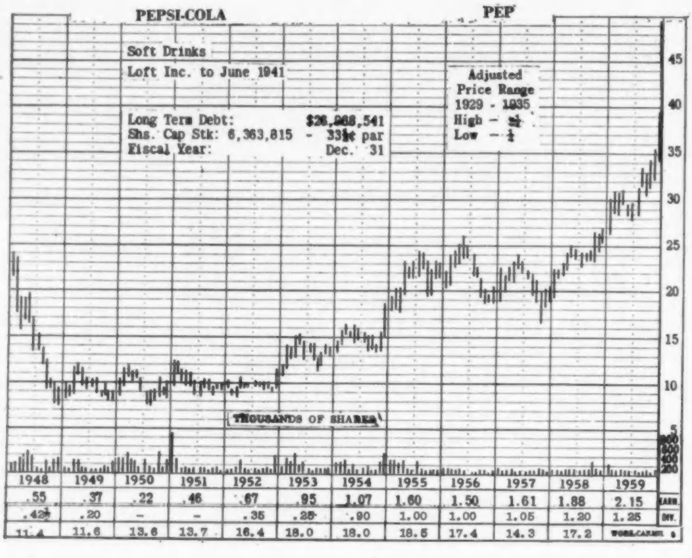
At last count, Coke owned thirty syrup plants, of which ten are in the United States, five in Canada and fifteen in other countries. An estimated ninety percent of revenues is derived from these plants, the balance coming from some eighty-five company-owned and operated bottling plants. Franchise bottlers operating exclusive territories number more than eleven hundred, while two thousand wholesale jobbers service more than one hundred thousand soda fountains. Taken all together these statistics add up to the fact that Coke is the largest factor in the soft drink industry by far.

Despite this substantial expansion, one thing that investors may be thankful for not changing, is the company's traditionally strong balance sheet. Not

Long-Term Income Data

	Coca-Cola Co.					Pepsi-Cola Co.				
	Net Sales (Millions)	Deprec. & Amort. (Millions)	Net Income (Millions)	Net Profit Margin	Net Earnings Per Share *	Net Sales (Millions)	Deprec. & Amort. (Millions)	Net Income (Millions)	Net Profit Margin	Net Earnings Per Share
1959 (1st 9 months)	$ N.A.	$N.A.	$27.4	—	$2.15	$ N.A.	$N.A.	$11.0	—	$1.73
1958	309.2	9.4	30.0	14.3%	2.36	136.8	4.8	11.5	23.5%	1.88
1957	296.8	8.8	29.9	14.9	2.35	120.3	3.9	9.5	20.9	1.61
1956	273.2	7.4	29.2	14.7	2.29	97.0	1.7	8.8	21.0	1.50
1955	252.8	6.1	27.4	14.6	2.14	88.9	1.6	9.4	24.1	1.60
1954	243.2	5.6	25.9	14.2	2.02	74.2	1.9	6.2	17.9	1.07
1953	251.2	5.5	28.2	15.8	2.20	66.1	1.6	5.4	17.3	.95
1952	245.6	5.6	27.2	15.9	2.12	53.3	1.8	3.8	13.3	.68
1951	225.6	5.7	26.1	15.7	2.03	46.7	1.5	2.6	9.8	.46
1950	215.2	5.9	31.8	19.6	2.47	40.1	.9	1.6	7.1	.28
1949	229.9	5.7	37.7	24.2	2.92	45.6	.9	2.1	10.1	.37

*—Adjusted for 3 for 1 stock split effective 2/11/1960.
N.A.—Not available.



only is there no long term funded debt, but the ratio of current assets to liabilities has dipped below four-to-one only once in the past ten years and at that time by only one-tenth of one percent. These funds, supplemented by depreciation and amortization charges and retained earnings, should prove more than adequate to finance its future expansion, even though capital expenditures over the past four years may have been substantially greater than internally generated funds.

On the basis of forty years of consecutive quarterly dividends, Coca-Cola obviously ranks as a high grade investment security. Add to this, however, five consecutive years of rising sales and earnings, and the stock takes on an added dimension of attractiveness. Presently selling around $145 on the New York Stock Exchange, the stock yields about 4.3%. Directors have indicated that an initial dividend of 55 cents will be declared on the split stock at the March 7 meeting.

Pepsi-Cola—As indicated previously, Pepsi-Cola also was rejuvenated by an injection of new managerial blood, in its case in 1950. Results have been nothing short of spectacular since that time.

After ten years of almost constantly declining profits, it could be safely said that Pepsi had gone flat. Since the first full year of control by the present management group, however, gross sales in the following decade quadrupled to more than $155 million—case sales increased some 182 percent, and earnings skyrocketed some ninefold, from $1.3 million in 1950 to about $13 million last year. Even shareholders were remembered, the annual dividend having been increased in seven of the past eight years from nothing in 1950 and 1951 to the present $1.40 annual rate.

This alchemy was partially accomplished by up-grading the company's advertising policy to an appeal to quality ("be sociable" with "the light refreshment") rather than quantity ("twice as much for a nickel too"). Among innumerable other changes, that included modernization of operating and marketing policies and establishment of closer liaison with bottlers, was an aggressive expansion in foreign countries, especially in *Canada, South America,* and *Europe.* Proof of this dynamic expansion is shown by the fact that two years ago foreign business represented about one-third of total revenues, against approximately 50% last year.

Pepsi's management realizes that it cannot afford to rest on its laurels, especially since its success has apparently stung Coca-Cola into a more aggressive, fighting mood. Consequently, Pepsi budgeted about $14.5 million for capital expenditures in each of the past two years. What's more, last summer the company acquired the Dossin Food Products Co., now called the Pepsi-Cola Bottling Co. of Detroit, for 200,000 shares of common stock.

Pepsi is also test marketing a new lemon-lime drink, called "Teem," to which it reports favorable acceptance thus far.

Being the second largest factor in the industry, Pepsi produces its concentrate in five North American and ten foreign plants. The company has some six hundred franchised bottlers in the United States and Canada, and about 300 abroad in some eighty different countries. About thirty bottling plants are owned and operated domestically and in Canada, the Phillippines, South Africa and Cuba.

With the most spectacular record in the soft drink industry over the past decade, Pepsi-Cola at about $35 a share, sells at about 16 times 1959 earnings, with a yield of 4%. END

Balance Sheet Data

	Coca-Cola 12/31/1958	Pepsi-Cola 12/31/1958
	Millions	
Common Stock and Surplus	$209.9	$49.0
Cash and Marketable Securities	$ 91.2	$17.7
Inventories, Net	$ 35.6	$ 7.5
Receivables, Net	$ 19.4	$ 9.5
Current Assets	$151.6	$36.2
Current Liabilities	$ 38.3	$19.0
Net Working Capital	$113.3	$17.2
Current Ratio (C.A. to C.L.)	3.9	1.9
Net Property	$ 85.6	$25.7
Total Assets	$288.2	$83.9
Book Value Per Share	$ 16.50[1]	$ 7.25
Estimated Earnings Per Share 1959	$ 2.60[1]	$ 2.15
Recent Price of Common Stock	51[1]	35
Price Earnings Ratio	19.6	16.2
Indicated Current Dividend	$ 2.20[1]	$ 1.40
Dividend Yield	4.3%	4.0%

1—Adjusted for 3 for 1 stock split effective 2/11/1960.

THE BARGAINS in FARM EQUIPMENTS
On 1960 Outlook

By EDWIN CAREY

- **Correcting misconceptions on farm income — and what is overlooked.**
- **Where equipment buying at home and abroad looks good.**
- **Away from one-product idea to diversification in interesting fields.**
- **What 1959 annual reports show . . . with 1960 earnings-dividend prospects . . . and an especially close look at Deere.**

WIDELY advertised predictions of lower farm income expected in 1960 may have caused undue alarm regarding farm equipments. Overlooked is the fact of their widened diversification, and their expanding markets abroad.

At 6 to 10 times 1959 earnings, the group has shown a firm tone during January, when stocks have been especially weak. Therein lies a quality not usually associated with these stocks.

For example, portfolio managers, feeling some frustration over the current market, mention **Deere** with the remark, "Can you get very badly hurt buying a quality stock at only 6.3 times 1959 earnings, and maybe 8.5 times a pessimistic view of 1960 earnings and a yield of 4.5%?" At the recent market of 44 the potential gain in a recovery to its 1959 high is 55%.

Farm Income: The Department of Agriculture's announcement that net farm income dropped 14% in 1959 from the high level of $14 billion in 1958 was generally expected from advance reports late last summer. The prediction that a further drop of 8% is likely in 1960 may have caused undue alarm. Such a prediction includes a guess on such variables as the weather, farmers intentions, and government support policies.

Several leaders in the industry such as **Allis-Chalmers'** President Stevenson have answered this bearish prediction by stating, "that gross farm income is seemingly a better indicator than net farm income, since farmers charge depreciation on equipment from gross income (total receipts) while net farm income is their profit after all expenses." Judging by Allis-Chalmers' own surveys, gross income in 1960 will be off only 2%, an amount too little to have a serious effect on the market for farm equipment. Furthermore shipments of tractors and attachments in 1960 will benefit from a large replacement demand and from shipments postponed from 1959 because of the steel strike.

Thus Allis-Chalmers predicts a moderate increase

in shipments of farm equipment in 1960. President Jenks of International Harvester said recently that 1959 shipments to farmers are certainly "not unattainable" in 1960. Overall shipments of most of the companies in the group should be higher than 1959 as a result of diversification programs into areas that depend upon industrial capital expenditures which are expected to increase about 18% in 1960.

As if to confirm the industry's more sanguine outlook, Secretary of Agriculture Benson, in a surprise move on February 3rd, reversed the earlier prediction concerning 1960 and said that Farm Income would likely be higher than in 1959, a further indication that the farm equipment companies may have been marked down a little too hastily.

With Government Help

Bumper Crops — Total crop production in 1959 matched the all-time high set in 1958, but farm income was lower chiefly because prices on key commodities were lower. The large 1959 crop surprised many who were familiar with the serious drought difficulties in the northern Great Plains. Reasons behind this generous yield included: (1) the government's removal of acreage allotments in the commercial corn area, (2) corn— the support price at $1.12 per bushel which encouraged a large output, (3) sugar beet production soared to record levels on a larger yield per acre and larger acreage. (4) In total some 4 million more acres were planted in 1959 than 1958, a reflection of the government's discontinuance of the acreage reserve program, a condition that speaks well for tractor demand.

Thus, two bumper crops coupled with government-protected prices have improved the financial condition of farmers. A good portion of the $15 billion of equipment shipped to farmers in the years prior to the Korean War needs replacing and farmers have the money to do it. *Fewer but larger farms have also resulted in the demand for increased mechanization.*

Thus, more expensive machinery is in demand. Four row plows, harrows and cultivators are now commonly sold, while six and eight row equipment introduced in 1958 is in growing demand. This requires larger tractors. In April 1960 *Deere* will market a ten-ton farm tractor, over twice as large as its heaviest 1959 model.

To some extent the trend toward larger farm equipment may provide an unexpected answer to certain foreign competition. In Europe small farms limit production to lighter machines. However, low cost foreign equipment and components continue to pose a serious problem to U. S. producers as they strive to keep costs in line. There could be some price increases on farm equipment in 1960 to offset higher costs, but this would encourage imports, there being some excess capacity of farm equipment in Europe currently.

Deere (44)—Recently released figures for the year ended October 31, 1959, show sales up 15% from 1958 to a record $542 million, with earnings per share climbing to a substantial $7.02 per share on 6.9 million shares. Net income before taxes ($10[illegible] million) indicates a pre-tax margin of 19%, about the same as in 1958, a level of profitability envied by the company's major competitors as well as by many others. Further evidence of Deere's solid position is its industry high in return on invested capital, an acid test that carries a great deal of weight in financial circles. Equity per common share at the end of the 1959 year climbed to $52.09, considerably higher than the price of the stock, compared with $46.86 a year earlier and net working capital per share after long-term debt topped $30.00.

Cash items stood at $13.3 million at the end of the 1959 fiscal year compared with $13.5 million a year earlier. This is down considerably from the heavy cash balances carried during most of the postwar years and from $36.9 million shown at the end of fiscal 1957. Cash demands have been heavy in expanding receivables, building up the new credit company, and investing in foreign operations. As the largest factor in the U. S. farm equipment market the management has not hestitated to spend large sums to solidify its position to enable Deere to form a good basis for a high level of operations.

Capital expenditures in 1959 were recently disclosed at $22 million, the highest in postwar years well above the 1958 rate of $14.8 million and also higher than the depreciation charge of roundly $14 million. More important is the company's plan to spend about $50 million in the current year. This large increase in spending by a conservative company is further indication that the long-term prospects for the industry are good as far as the management is concerned, and that 1961 and 1962 might be very good years, perhaps based on the replacement of equipment shipped before the Korean War, else

Leading Farm Equipment Companies

	Dividends Per Share			Earnings Per Share					
	1957	1958	1959	1957	1958	1959 *	Recent Price	Div. Yield	Price Range 1959-60
Allis-Chalmers Mfg.	$2.11	$2.34	$2.60[1]	$2.00	$1.25	$1.25	38	3.2%	39⅝-26⅞
Case (J. I.) Co.	.09	1.12	1.75	—	—	—	19	—	26⅝-18
Caterpillar Tractor	1.45	1.16	1.68	.80	.80	1.00	32	3.1	36½-30
Deere & Co.	3.96	6.06	7.02	1.62½	1.75	2.00[2]	45	4.4	68¼-42⅜
International Harvester	2.88	2.69	5.10	2.00	2.00	2.40	49	4.9	57⅞-39⅝
Massey-Ferguson Ltd.	d .61	1.25	1.65	.40	.40	.40	11	3.6	17⅜-10⅞
Minneapolis-Moline Co.	d5.72	d2.09	3.16	—	—	—	23	—	29¼-18⅛
Myers (F. E.) & Bros. Co.	4.64	4.11	4.53	2.80	2.40	2.40	44	5.4	50¾-38
Oliver Corp.	.13	.63	1.42	.60	.60	.60	17	3.5	26⅛-14⅛

d—Deficit.
*—Based on latest div. rate.
[1]—Estimated.
[2]—Plus Stock.

Comprehensive Statistics Comparing the Position of Leading Farm Equipment Companies

Figures are in millions, except where otherwise stated.	J. I. Case Co.	Deere & Co.	International Harvester	Minneapolis — Moline Co.	Myers (F. E.) & Bros.
CAPITALIZATION:					
Long Term Debt (Stated Value)	$ 42.6	$ 115.0	$ 100.0	$ 13.6	—
Preferred Stocks (Stated Value)	$ 1.3	—	$ 81.6	—	—
No. of Common Shares Outstanding (000)	2,862	6,901	13,875	986	198
Capitalization	$ 79.696	$ 121.9	$ 736.6	$ 14.6	$ 1.0
Total Surplus	$ 64.345	$ 342.1	$ 187.8	$ 34.2	$ 9.9
INCOME ACCOUNT: Fiscal Year Ended	10/31/59	10/31/59	10/31/59	10/31/59	9/30/59
Net Sales	$ 200.5	$ 542.5	$1,363.1	$ 53.7	$ 13.6
Deprec., Depletion, Amort., etc.	$ 5.0	$ 14.5	$ 40.5	$ 1.5	$ .3
Income taxes	$ 6.7	$ 53.5	$ 63.8	.02	$ .9
Interest Charges, etc.	$ 4.3	$ 8.9	$ 3.5	$ .9	—
Balance for Common	$ 6.2	$ 48.4	$ 70.7	$ 3.1	$ .9
Operating Margin	8.9%	18.8%	11.6%	6.4%	12.7%
Net Profit Margin	3.0%	8.9%	5.7%	6.0%	6.5%
Percent Earned on Invested Capital	6.1%	13.9%	9.2%	9.1%	8.2%
Earned Per Common Share	$ 1.75	$ 7.23	$ 5.10	$ 3.16	$ 4.53
BALANCE SHEET: Fiscal Year Ended	10/31/59	10/31/59	10/31/59	10/31/59	9/30/59
Cash and Marketable Securities	$ 12.0	$ 13.3	$ 156.2	$ 8.8	$ 2.0
Inventories, Net	$ 56.6	$ 159.0	$ 390.8	$ 14.7	$ 3.5
Receivables, Net	$ 35.0	$ 287.6	$ 67.0	$ 25.3	$ 2.6
Current Assets	$ 118.5	$ 460.0	$ 676.7	$ 49.0	$ 8.5
Current Liabilities	$ 59.5	$ 140.5	$ 209.6	$ 8.2	$ 1.7
Working Capital	$ 59.0	$ 319.5	$ 467.1	$ 40.8	$ 6.8
Current Ratio (C.A. to C.L.)	2.0	3.2	3.2	5.9	5.0
Fixed Assets, Net	$ 40.0	$ 98.0	$ 321.5	$ 7.9	$ 2.8
Total Assets	$ 222.2	$ 621.8	$1,145.2	$ 57.0	$ 12.6
Cash Assets Per Share	$ 4.18	$ 1.93	$ 11.25	$ 8.93	$ 10.43
Inventories as Percent of Sales	28.2%	29.3%	28.7%	27.4%	26.2%
Inventories as % of Current Assets	47.8%	34.5%	57.7%	30.0%	41.9%

why the rush to double record expenditures in one year?

There are some questions still to be answered concerning the exact nature of this stepped-up capital program, and it may be clarified by the company in the near future. A large amount of the expenditures will be for retooling, since plant capacity would seem adequate for near-term needs. Indications are that a major change in models or styling of the product line will come about this year, which would enhance 1961 prospects, but involve down time for modernization and retooling in 1960. There arises the question whether outside financing will be needed, since cash is required to rebuild dealer inventories that are depleted from the steel strike.

In 1959 retained earnings of $34 million plus depreciation of $14 million more than covered capital expenditures of $22 million, but the resulting addition to working capital was needed for increased receivables and inventory leaving the cash position virtually unchanged. With the debt ratio at October 31, 1959 at about 30% of capitalization, and considering the current high cost of borrowing, some equity financing could be in the picture for 1960.

Thus it is clear that Deere will make some sacrifices in 1960, which could include outside financing to improve its product line and plant facilities for an expected higher trend of shipments in 1961 and beyond.

The company's *West German subsidiary*, the Heinrich Lanz Company, continues to be unprofitable, but there is little doubt that a management such as the one at the helm of Deere will be successful in getting this $35 million operation on as profitable basis as are the American plants. (Capacity of this plant is reported at double the current operating rate indicating real potential to be realized.) The Lanz product line has been undergoing major revamping since the acquisition, and development costs have continued high.

A new *Argentine* subsidiary is starting up and in 1960 is scheduled to ship its capacity of 3,000 tractors per year to help remedy a shortage of tractors in that country. The South American market should be a growing area for farm equipment if exchange problems can be ironed out, and Deere appears wise to start a major operation in Argentina. The company recently announced plans to build a plant in *France* to produce tractors. It already has subsidiaries in *Mexico* and *Canada* and is considering entry into other countries where it is difficult to sell products manufactured in the United States due to high import duties or exchange difficulties.

Deere is less diversified than Allis-Chalmers or International Harvester, but the program to increase the sales of industrial and *construction machinery* shows dramatic progress with such sales close to $50 million compared with *(Please turn to page 589)*

FOR PROFIT AND INCOME

Support

The speed and scope of the market's sell-off up to this writing have surprised the public and most professional analysts. Here and there a strong stock stands out; but issues holding better than the market currently — which is say retreating less than the market — are mostly those in which there had been relatively little upside "play" or which wert largely deflated before the general decline started. Whatever the reasons, the following stocks show better than average support at this time: Allis-Chalmers, American Electric Power, American Telephone, American Tobacco, Associated Dry Goods, Beatrice Foods, Cosden Petroleum, Deere, Electric Storage Battery, Federated Department Stores, Gimbel Bros., Hershey Chocolate, Kroger, National Biscuit, Standard Oil (Indiana), Standard Oil (Jersey), United Biscuit, United Fruit.

Weak

A partial list of stocks performing significantly worse than the industrial average at this writing includes the following: American Airlines, Best, American Motors, Bullard, Ampex, Case, Chemetron, Chicago Pneumatic Tool, Continental Can, Cities Service, Combustion Engineering, Crown Cork, Detroit Edison, Dresser Industries, General Portland Cement, Eastern Air Lines, General Motors, Goodyear, Grace, Grand Union, Gulf Oil, Inland Steel, Lone Star Cement, Pan American, Pfizer, Pittsburgh Plate Glass, Pure Oil, Phelps Dodge, United Air Lines, U. S. Vitamin, Woodward Iron.

Another Look

As late as a month ago most management forecasts of U. S. automobile output in 1960 ranged from 6,500,000 to 7,000,000 cars. Although a clearer picture of retail demand can be had by early spring, present trade opinion is that output will do well to reach 6,500,000 units and might be nearer 6,200,000. The Big Three are selling more compact cars and fewer standard models than they had expected. All compact cars, including imports, seem likely to

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Beckman Instruments	Quar. Dec. 31	$ .47	$ .30
Black & Decker Mfg.	Quar. Dec. 31	.68	.44
Divco-Wayne Corp.	Year Oct. 31	2.30	1.57
Bulova Watch	13 weeks Dec. 27	.64	.34
American Steel Foundries	Quar. Dec. 31	1.05	.39
General Foods	Quar. Dec. 31	1.12	.95
Dow Chemical Co.	Quar. Nov. 30	.84	.64
Armour & Co.	52 weeks Oct. 31	2.73	1.08
Mergenthaler Linotype	12 weeks Dec. 20	2.09	1.10
Eversharp, Inc.	9 mos. Nov. 30	1.02	.63

have at least 30% of the domestic market this year, and it could be more. Total sales of larger cars figure to be considerably less than they were even in the recession year 1958; and might be 20% or more under 1959 volume. Gains in earnings probably will be below earlier hopes. This is why automobile stocks are performing poorly. Moreover, unless halted and reversed soon, the market decline will itself affect car sales adversely.

Change In View

Following a large rise prior to the 3-for-1 split and 10% boost in the dividend, American Telephone ran into profit taking. The split stock eased from a high of 89 to 75⅛; but it has since edged upward in a soft market and is currently at 81. There are two reasons for the better action: (1) the stock is relatively safe, and current investment sentiment is leaning away from risk-taking; and (2) substantial, even though gradual, growth of earnings is getting more emphasis. Profit is estimated around $5.20 a share for 1959, against 1958's $4.67 (adjusted for the split). It could reach the vicinity of $5.75 this year and exceed $6.25 in 1961). There is now some thought that another moderate boost in the dividend might be possible within, say, one to two years. The stock is selling around 14 times likely 1960 earnings, yielding over 4% on the present $3.30 rate. That is better than fair value as high-grade stocks go in today's market. There is apparent potential for moderate appreciation, with risk seemingly slight at this time.

Cross-Currents

At this writing stock groups making a better showing (at least in rate of retreat) than the general list are principally automobile parts, building materials, coal, dairy products, farm machinery, food stores, oils and tobaccos. The reverse is so far the following: aircraft, aluminum, autos, chemicals, coppers, electrical equipment, finance companies, office equipment, paper, television-electronics, textiles, tires and variety stores.

Appliances

Dealers report disappointing sales of home appliances and some price cutting. Inventories are somewhat on the high side, partly because they were built up to allow for possible resumption of the steel strike, partly because of slow sales. Shrinkage in home building is an adverse factor, but replacement demand normally provides a larger market than new homes. The record level of consumer income would seemingly argue for some 1960 gain in sales, even though well under that of 1959. On the other hand, installment debt has for some time been running ahead of income, financing costs are higher and there is tentative evidence of some toning down in general consumer spending psychology. The latter will bear watching in nearby months. Meanwhile, there is no case for buying stocks of appliance makers. On the contrary, precautionary profit taking on small rallies would seem in order.

Comparison

U. S. Steel could easily earn over $8.00 a share this year — the exact amount depending in some degree on how much the company wishes to show — against 1959's $4.29 and the previous peak of $7.33 in 1957. An increase in the $3.00 dividend and a stock split are possible. At 90 the stock is selling in the vicinity of 11 times earnings, but the fact that it is much closer to the low than high of its 1959-1960 range amounts to a market vote of skepticism or pessimism on cyclical prospects beyond the medium term. It is not argued here that Big Steel is cheap or dear. What stands out is that, compared with it, many other heavy-industry stocks appear overpriced. On a guess-estimate of 1960 earnings, here are some other price-earnings ratios in approximate terms: Ingersoll-Rand 15, ACF Industries 13, Caterpillar Tractor 16 and Chain Belt 14.

Meaningless

We pointed out here four weeks ago that the population boom could be related more readily to over-all potentials for the economy than to prospects for individual stocks. As a case in point, the stock of the American Seating Company, now around 30 and off from high of 41, has been sagging to new lows recently. The company is the largest maker of seats, desks and related items for schools and other public buildings. The market served has grown largely, but so has competition. It will grow further, and so will competition. The company's peak 1955 earnings of $3.59 a share barely exceeded the $3.58 shown as far back as 1949. Its 1959 profit probably did not exceed 1958's $3.10 a share. A small gain is possible this year. On a $1.60 dividend, the stock is a good one to pass up—regardless of the population boom and record needs.

"Alice"

In both farm machinery and heavy electrical equipment, Allis-Chalmers is third largest maker. It also makes a variety of industrial and construction equipment. In recent years, management has become more aggressive in acquisitions and research, the latter extending into new fields. Thus, the company has announced development of a fuel cell reputed to be the most promising of these remarkable devices, on which a number of important companies have been working and still are. Explained simply, a fuel cell converts appropriate chemicals directly to electricity more efficiently than is being done by the familiar methods. The potentials could be revolutionary — but no-

(Please turn to page 594)

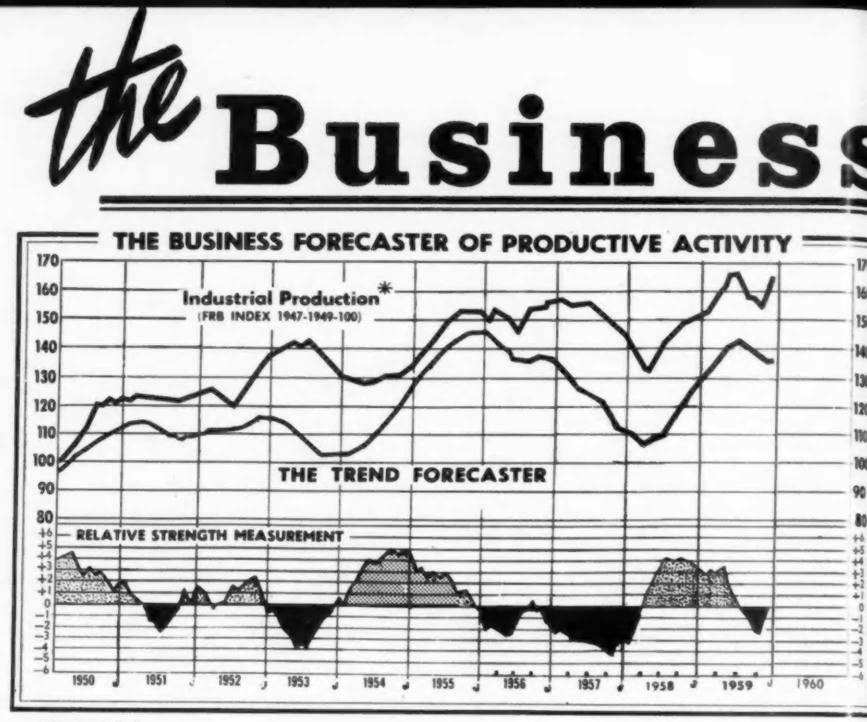
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Chicago, Mil., St. P & Pac. R.R.	Year Dec. 31	$1.55	$2.73
Gar Wood Industries	Year Oct. 31	.01	.32
Braniff Airways	Year Dec. 31	.85	1.01
Madison Square Garden	Quar. Nov. 30	.32	.42
American & Foreign Power	9 mos. Sept. 30	1.08	1.21
Collins & Aikman Corp.	Quar. Nov. 28	.57	.75
Stokely-Van Camp, Inc.	6 mos. Nov. 28	.50	1.00
Pillsbury Co.	6 mos. Nov. 30	1.52	2.01
Superior Oil Co.	Quar. Nov. 30	6.92	20.87
Schenley Industries	Quar. Nov. 30	.81	1.07

the Business

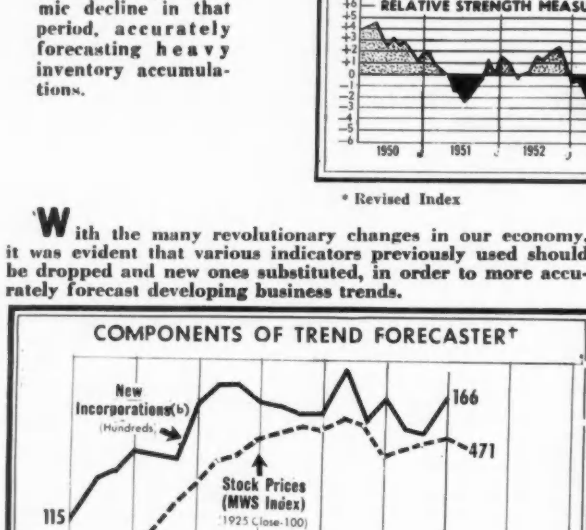
Business Trend Forecaster

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.



* Revised Index

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

A broadly mixed condition now prevails among the eight component series entering into the Trend Forecaster. Those series directly affected by the steel strike—average hours worked, and durable goods new orders—have evidently turned upward although at no sensational rate. Housing starts and new incorporations have also exhibited strength, and raw industrial commodities, after minor weakening in December, advanced in January. Stock prices, on the other hand, advanced in December, but broke very sharply in January. Business failures and nonresidential construction contracts have exhibited only erratic behavior for the past few months.

In December, the Relative Strength Measurement advanced sharply, reaching about zero from minus three in the preceding month. Further improvement seems to have occurred in January. The index is still reflecting an early phase of the post-strike recovery. However, it will be early March before the distortions produced by the strike disappear from the statistics.

Analyst

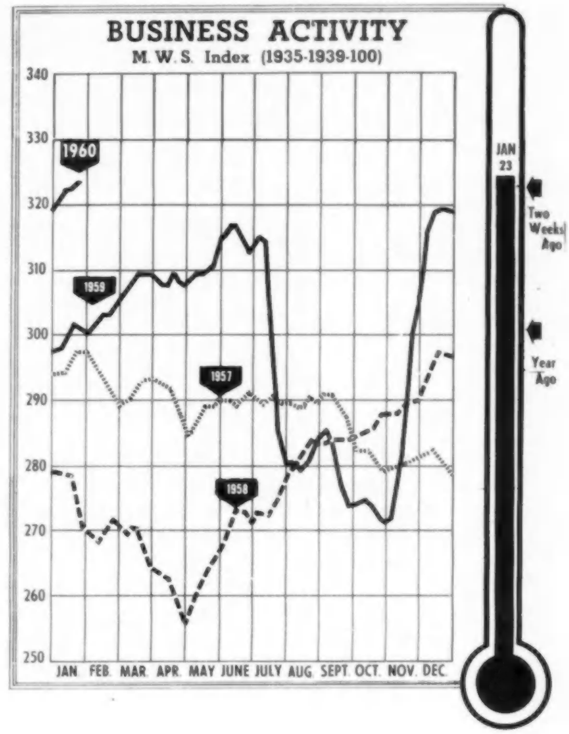
CONCLUSIONS IN BRIEF

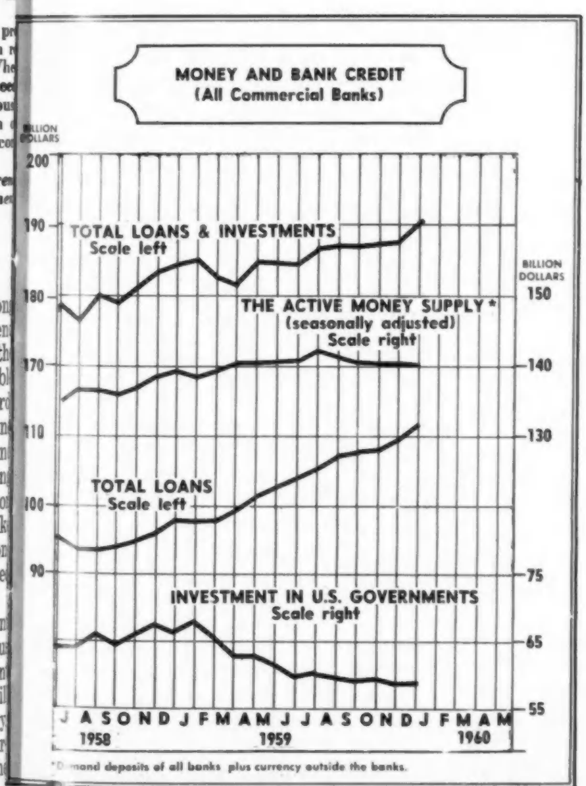
PRODUCTION—after an extremely sharp recovery in December, general operating rates advanced a little further in January. A moderate further advance is probable in February and March, then a plateau for several months. Strong outlook for steel, machinery output.

TRADE—with automobile supplies approaching normal, volume of total retail sales should move back into the $18.5 billion per month rate, and stay there for several months. Both soft goods and hard goods outlook strong, despite present concern over consumer durables.

MONEY AND CREDIT—signs of softening in money market in recent weeks need careful appraisal. Even if worst of squeeze is over, no immediate ease is apparent; look for present general level of interest rates for another six months.

COMMODITIES—industrial commodity price indexes have moved up, but mainly due to higher scrap metal prices while other commodities remain in the doldrums. Outlook: moderate, irregular rise in commodity price level over next four months.





HERE and there in the business news of the past two weeks an insistent note of bearishness has crept in. The stock market has been, of course, both sign and substance of a bearish mood that is now quite prevalent along Wall Street. But more than just stock prices seems to be involved. According to sources close to the automobile industry, there is more than a trace of dissatisfaction in Detroit with the current sales rate—not so much the compact cars, which seem to be making their way nicely enough, but the not-so-compact middle-price cars, where a lot of automobile profit is concentrated. Industry reports suggest that the 2.25 million production objective for the first quarter of the year has already been shaved just a bit, and that more shaving will take place pretty promptly unless the selling rate advances.

Similarly, manufacturers of productive equipment have gone on record that orders are not matching expectations, at least as yet. And the rate of contract awards among nonresidential projects is hardly anything to cheer about.

Query: has the post-strike rebound come a cropper in only ten weeks? Is the boom, to put it bluntly, dying on its feet?

Answer: not yet, by any means. In fact, it is only now getting on its feet. Typically, business men and their economic advisers expect developments in business conditions to take place at a rapid rate, with period meshing into period without lags and delays. At the end of a strike, we should get a rebound, and

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* † (FRB)	1947-'9-100	Dec.	165	156	151
Durable Goods Mfr.	1947-'9-100	Dec.	174	156	155
Nondurable Goods Mfr.	1947-'9-100	Dec.	157	157	147
Mining	1947-'9-100	Dec.	129	125	129
RETAIL SALES*	$ Billions	Dec.	17.6	17.8	17.6
Durable Goods	$ Billions	Dec.	5.4	5.7	5.8
Nondurable Goods	$ Billions	Dec.	12.2	12.1	11.8
Dep't Store Sales	1947-'9-100	Dec.	151	145	143
MANUFACTURERS'					
New Orders—Total*	$ Billions	Dec.	30.9	29.2	28.4
Durable Goods	$ Billions	Dec.	14.9	13.7	13.7
Nondurable Goods	$ Billions	Dec.	16.0	15.5	14.7
Shipments*	$ Billions	Dec.	30.8	29.0	28.1
Durable Goods	$ Billions	Dec.	15.0	13.5	13.3
Nondurable Goods	$ Billions	Dec.	15.8	15.5	14.2
BUSINESS INVENTORIES, END MO.*	$ Billions	Nov.	88.3	88.8	85.0
Manufacturers'	$ Billions	Nov.	51.5	51.5	49.3
Wholesalers'	$ Billions	Nov.	12.6	12.5	12.1
Retailers'	$ Billions	Nov.	24.2	24.7	23.6
Dept. Store Stocks	1947-'9-100	Nov.	160	158	152
CONSTRUCTION TOTAL	$ Billions	Dec.	4.1	4.4	4.1
Private	$ Billions	Dec.	3.1	3.3	2.9
Residential	$ Billions	Dec.	1.8	1.9	1.7
All Other	$ Billions	Dec.	1.3	1.4	1.2
Housing Starts*—a	Thousands	Dec.	1310	1210	1432
Contract Awards, Residential—b	$ Millions	Dec.	993	1092	981
All Other—b	$ Millions	Dec.	1231	1281	1301
EMPLOYMENT					
Total Civilian	Millions	Dec.	65.7	65.6	64.0
Non-Farm *	Millions	Dec.	52.5	52.2	50.8
Government *	Millions	Dec.	8.3	8.2	8.0
Trade *	Millions	Dec.	11.4	11.5	11.1
Factory *	Millions	Dec.	12.3	12.1	11.9
Hours Worked	Hours	Dec.	40.5	39.9	40.2
Hourly Earnings	Dollars	Dec.	2.26	2.23	2.19
Weekly Earnings	Dollars	Dec.	91.53	88.98	88.04
PERSONAL INCOME*	$ Billions	Dec.	391	387	367
Wages & Salaries	$ Billions	Dec.	264	261	247
Proprietors' Incomes	$ Billions	Dec.	60	59	60
Interest & Dividends	$ Billions	Dec.	37	37	32
Transfer Payments	$ Billions	Dec.	28	28	26
Farm Income	$ Billions	Dec.	17	15	18
CONSUMER PRICES	1947-'9-100	Dec.	125.5	125.6	123.7
Food	1947-'9-100	Dec.	117.8	117.9	118.7
Clothing	1947-'9-100	Dec.	109.2	109.4	107.5
Housing	1947-'9-100	Dec.	130.4	130.4	128.2
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Dec.	111.8	111.8	111.3
Bank Debits*—g	$ Billions	Dec.	95.8	91.5	89.5
Business Loans Outstanding—c	$ Billions	Dec.	31.4	31.0	31.4
Instalment Credit Extended*	$ Billions	Nov.	4.1	4.2	3.6
Instalment Credit Repaid*	$ Billions	Nov.	3.7	3.7	3.5
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Dec.	7.6	5.9	6.2
Budget Expenditures	$ Billions	Dec.	6.8	6.6	7.1
Defense Expenditures	$ Billions	Dec.	4.2	3.7	4.2
Surplus (Def) cum from 7/1	$ Billions	Dec.	(5.6)	(6.4)	(11.0)

PRESENT POSITION AND OUTLOOK

immediately. In the present instance, there seems to be good ground for expecting a rather sizeable lag between the strike and its inevitable expansionary consequences. The strike was, after all, the longest on record, and was associated with the severest dislocation of production and income. It will take quite a while for the optimism, and the cash, of the affected corporations and individuals to be restored to normal. The rebound may thus be gradual and halting for several more weeks, and may not hit its stride until the second quarter.

* * *

THE PROFITS PICTURE—despite the hesitant note of statistics in recent weeks, the profits picture looks uniformly good for 1960. In fact, an aggregate profits level of well over $50 billion, before taxes, seems to be in the cards, and a few estimates run over $55 billion. The federal budget for fiscal 1961 estimates calendar year 1960 profits at about $51 billion.

On top of this favorable earnings picture, depreciation allowances are still rising by about $1 billion per year, even though the accelerated amortization of the Korean War period is now about fully utilized (the railroads were among the prime beneficiaries of accelerated amortization, and their total depreciation allowances are now apparently falling, as the five-year amortization periods expire on equipment acquired during and after the Korean War).

Taking the combined levels of depreciation and retained earnings for 1960 suggests a record corporate cash inflow; enough of an inflow to permit a considerable further rise in capital outlay, and in inventory investments, without pushing corporations heavily into the capital markets.

* * *

UNDERNEATH THE NEW PRODUCTION INDEX—the Federal Reserve's new index of industrial production, which is being published on both a 1947-1949 and 1957 base, includes among its improvements a break between final-product output and materials output. The new break makes possible some interesting

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1959 Quarter III	1959 Quarter II	1959 Quarter I	1958 Quarter III
GROSS NATIONAL PRODUCT	478.6	484.5	470.2	444.0
Personal Consumption	313.3	311.2	303.9	294.4
Private Domestic Invest.	67.0	77.5	69.8	54.2
Net Exports	0.0	—1.8	–0.9	1.6
Government Purchases	98.4	97.7	97.4	93.8
Federal	53.6	53.9	53.8	53.6
State & Local	44.8	43.8	43.8	40.8
PERSONAL INCOME	381.0	381.1	371.8	336.4
Tax & Nontax Payments	45.8	45.8	44.4	42.9
Disposable Income	335.2	335.3	327.4	320.4
Consumption Expenditures	313.3	311.2	303.9	294.4
Personal Saving—d	21.9	24.1	23.5	26.0
CORPORATE PRE-TAX PROFITS		52.6	46.5	38.3
Corporate Taxes		25.6	22.6	18.8
Corporate Net Profit		27.0	23.8	19.5
Dividend Payments		13.0	12.8	12.6
Retained Earnings		14.0	11.0	6.9
PLANT & EQUIPMENT OUTLAYS	34.3	32.5	30.6	29.6

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Jan. 23	324.3	323.0	300.5
MWS Index—per capita*	1935-'9-100	Jan. 23	236.2	235.1	223.6
Steel Production	% of Capacity	Jan. 30	95.4	95.7	76.9
Auto and Truck Production	Thousands	Jan. 30	217	218	152
Paperboard Production	Thousand Tons	Jan. 23	322	325	293
Paperboard New Orders	Thousand Tons	Jan. 23	332	315	289
Electric Power Output*	1947-'49-100	Jan. 23	266.1	260.9	245.5
Freight Carloadings	Thousand Cars	Jan. 23	587	606	556
Engineerings Constr. Awards	$ Millions	Jan. 28	245	373	418
Department Store Sales	1947-'9-100	Jan. 23	113	120	105
Demand Deposits—c	$ Billions	Jan. 20	62.3	62.4	63.4
Business Failures—s	Number	Jan. 21	302	292	296

PRESENT POSITION AND OUTLOOK

sidelights on the steel strike and its effects. For example, for several months after the strike began, all of the impact was concentrated in materials. By November, however, final-product output was falling rather sharply. In December, the situation was again changed, as materials output recovered at the end of the strike and final-product output was still retarded by shortages. Evidently it was not until January that the two output accounts were rising simultaneously, and recovering to a normal relationship with each other.

Other components of the new index point to the fact that the impact of the strike was heavily localized in durables manufacturing, and in mining. Output of soft goods continued unabated in the strike months, and utilities output rose to record highs. As among individual durables industries, primary metals and transportation equipment broke sharply, reflecting steel and automobiles (and freight cars, to a lesser degree). Moderate declines were experienced in machinery production, and output of fabricated metal products.

***Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Revised index. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.**

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1959-'60 High	1959-'60 Low	1959 Jan. 22	1960 Jan. 29
Composite Average	492.4	436.9	469.9	453.9
4 Agricultural Implements	492.4	356.2	407.0	407.0
3 Air Cond. ('53 Cl.—100)	137.2	110.5	126.2	122.4
9 Aircraft ('27 Cl.—100)	1375.1	1019.1	1082.9	1038.7
7 Airlines ('27 Cl.—100)	1429.4	923.7	967.6	923.7L
4 Aluminum ('53 Cl.—100)	594.5	392.0	490.0	469.2
5 Amusements	252.6	200.5	225.2	216.1
5 Automobile Accessosies	541.9	413.4	514.8	498.5
5 Automobiles	156.8	93.7	146.2	135.4
3 Baking ('26 Cl.—100)	41.3	28.5	38.3	37.5
4 Business Machines	1395.5	1173.8	1238.1	1185.5
6 Chemicals	835.5	692.9	745.5	713.4
4 Coal Mining	37.8	28.1	34.2	33.2
4 Communications	229.8	164.6	225.2	213.7
9 Construction	178.9	155.6	169.2	164.1
5 Container	1142.6	981.2	1022.9	981.2L
5 Copper Mining	344.6	280.7	334.5	318.1
2 Dairy Products	163.1	138.8	151.4	146.8
5 Department Stores	143.8	119.1	142.4	139.5
5 Drugs-Eth. ('53 C.—100)	475.4	379.5	413.1	408.7
5 Elect. Eqp. ('53 Cl.—100)	369.9	268.8	351.4	325.5
3 Finance Companies	769.7	654.6	675.6	668.9
5 Food Brands	470.0	406.3	432.7	419.3
3 Food Stores	279.6	244.4	257.9	250.2

(Nov. 14, 1936 Cl.—100)	High	Low	Jan. 22	Jan. 29
High Priced Stocks	306.7	268.4	290.7	281.3
Low Priced Stocks	665.9	585.4	637.5	615.2
5 Gold Mining	1013.5	853.0	983.1	993.2
4 Investment Trusts	190.6	162.1	168.9	162.1L
3 Liquor ('27 Cl.—100)	1624.8	1369.0	1414.1	1369.0L
7 Machinery	563.2	452.4	512.8	497.1
3 Mail Order	467.5	253.1	423.3	396.0
4 Meat Packing	277.1	204.4	267.6	262.2
4 Mtl. Fabr. ('53 Cl.—100)	211.2	181.3	206.6	196.6
9 Metals, Miscellaneous	409.6	343.8	380.5	361.8
4 Paper	1310.5	1124.4	1160.6	1124.4L
16 Petroleum	885.5	699.3	714.3	699.3L
16 Public Utilities	365.4	334.9	341.6	341.6
6 Railroad Equipment	104.1	86.9	97.8	93.8
18 Railroads	78.2	66.0	68.1	66.7
3 Soft Drinks	726.6	599.8	726.6	690.3
11 Steel & Iron	476.4	392.5	446.3	427.7
4 Sugar	144.7	88.7	92.6	88.9
2 Sulphur	863.3	580.6	600.2	594.0
11 TV & Electron. ('27—100)	111.3	65.6	102.0	98.6
5 Textiles	259.6	176.6	216.4	209.8
3 Tires & Rubber	281.8	216.1	237.8	227.5
5 Tobacco	194.9	172.9	190.0	186.2
3 Variety Stores	371.2	331.4	363.9	352.9
14 Unclassif'd ('49 Cl.—100)	295.1	239.8	284.6	274.0

L—New Low for 1959-1960.

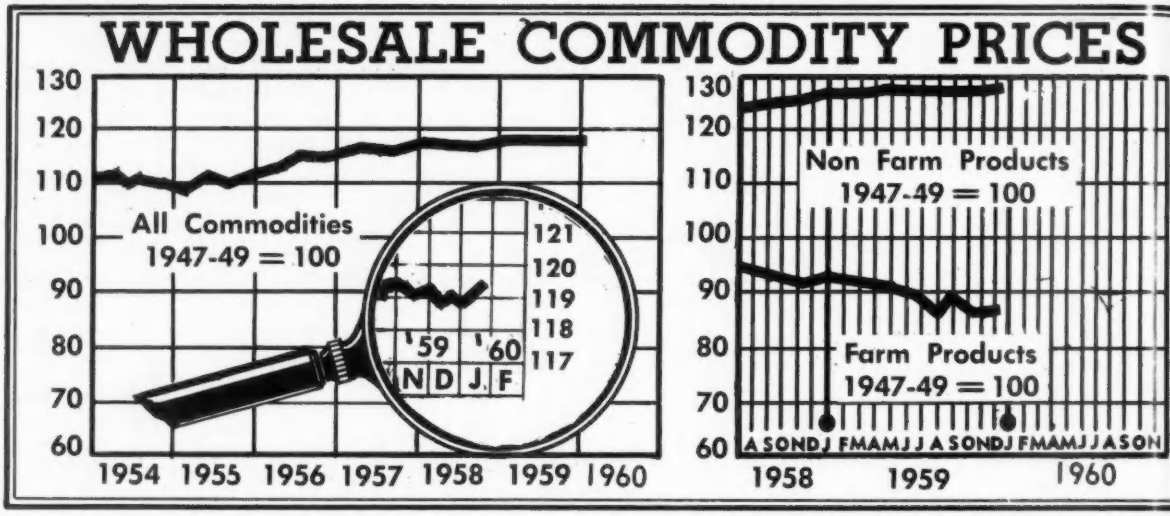
Trend of Commodities

SPOT MARKETS—Prices of sensitive commodities were mixed in the two weeks ending January 29. Foodstuffs were lower while industrial raw materials followed diverse courses. Metals were strong, but textiles, fibers, fats and oils, weakened. The BLS daily index of 22 commodities lost 0.2%, despite a 1.8% gain for the metals component. Raw foods lost 0.6% and textiles and fibers fell 1.6%.

Among the rank and file of commodities, farm products were stronger in the period under review and accounted for the gain of 0.4% registered by the BLS comprehensive weekly wholesale prices index. A glance back at year-ago levels for this index gives us a good idea of the inflation or lack of it, that has taken place in the past year—the index is at the same level as it was in January, 1959.

FUTURES MARKETS—Commodity futures were mostly lower in the two weeks ending January 29. Soybeans, oats, rye, wool, world sugar, cocoa, hides, copper, zinc and lead, all were lower, while wheat, corn, cotton and coffee showed mixed trends, with some months advancing while others declined.

Wheat futures were mixed in the fortnight under review with current crop options weakening while new crop futures were slightly higher. The decline in nearby futures may have been caused by the figures on wheat consumption for the last quarter of 1959. Disappearance came to only 257 million bushels versus 325 million bushels a year earlier. As something of a counter-balance, the Department raised its estimates of wheat exports this season, but this appeared to have little effect on the market.



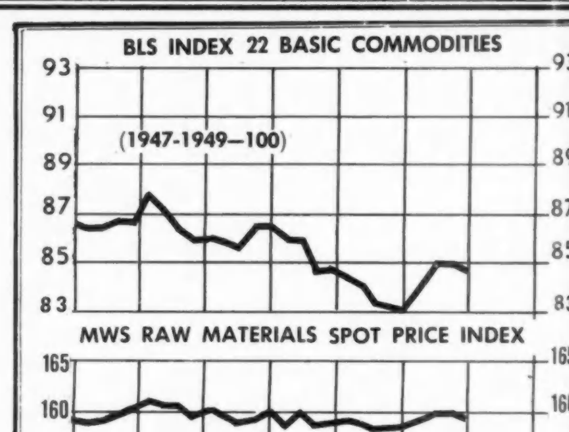
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Jan. 26	119.5	119.1	119.5	60.2
Farm Products	Jan. 26	88.4	86.3	91.5	51.0
Non-Farm Products	Jan. 26	128.6	128.6	127.5	67.0
22 Sensitive Commodities	Jan. 29	84.8	85.0	84.5	53.0
9 Foods	Jan. 29	71.9	72.4	78.5	46.5
13 Raw Ind'l. Materials	Jan. 29	94.9	94.8	88.8	58.3
5 Metals	Jan. 29	101.7	99.9	97.3	54.6
4 Textiles	Jan. 29	80.1	81.3	76.9	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1959	1958	1953	1951	1941
High of Year	161.4	154.1	162.2	215.4	85.7
Low of Year	152.1	146.5	147.9	176.4	74.3
Close of Year	158.3	152.1	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1959	1958	1953	1951	1941
High of Year	152.7	159.0	166.8	215.4	84.6
Low of Year	144.2	147.2	153.8	174.8	55.5
Close of Year	147.8	147.6	166.5	189.4	84.1



The Bargains In Farm Equipments On 1960 Outlook

(*Continued from page 581*)

28 million in 1958. Further increases are looked for in 1960 and construction equipment sales could be up to $100 million or 15-20% of total sales by 1961.

The *chemical plant* which produces nitrogen fertilizers and feeds is continuing to show a sharp increase in sales of perhaps 10% per year. However, this operation is still small representing perhaps 2% of sales.

Deere's shipments in the first quarter of fiscal 1960 will run ahead of a year ago to replenish inventory, but comparisons with 1959 will likely be unfavorable in the third and fourth quarters. A full year earnings expectation of about $5.00 per share is a conservative and possibly a pessimistic expectation. (A number of analysts feel 1960 earnings will exceed $6.00.)

Allis - Chalmers (38) — Unlike Deere, Allis-Chalmers is selling at close to its 1959-60 high of 40. As third largest domestic producer of farm equipment it is well established in this field with a distribution set-up of 3,000 dealers. Activities are more diversified, however, with heavy electrical equipment nearly as important as farm machinery. In addition the company produces a well accepted line of road building machinery and other industrial equipment which includes fork lift trucks and process machinery of diversified types. Probably 55% to 65% of total sales are represented by industrial lines other than farm equipment.

The company is especially noted for its emphasis on research, the total cost of which is estimated at 5% of sales—more reminiscent of a drug company than a producer of industrial and farm equipment.

The stock has been selling at less than 10 times estimated 1960 share earnings of $4.00 on 8.9 million shares, up from $2.60 estimated for calendar year 1959. (Last year's earnings were penalized by an 11-week strike in the company's own plants as well as by the steel strike.) Although the common yields only 3.2% on the dividend of $1.25, which may be increased in 1960 compared with 4.5% in the case of Deere, it seems to have even better near-term possibilities for capital gain than Deere.

A higher multiple of earnings is generally applied to (1) research-minded companies, (2) electrical equipment earnings, and (3) companies with a revolutionary development such as Allis-Chalmers' fuel cell.

The *fuel cell* development may well replace the gasoline engine for many uses in the 1960's. This device generates electricity from chemicals to produce power at far greater efficiency than any known engine and could have application in automobiles, trucks, and tractors. *Expensive fuels and high operating temperatures have been serious drawbacks to this development, but Allis-Chalmers' breakthrough makes use of a cheap fuel and operates at room temperature and low pressure.* Added advantages included a lack of moving parts, no harmful exhaust, and silent operation. *Suffice to say that Allis-Chalmers presently has a clear-cut lead over others in this development, that the company's overall earnings are in an uptrend and that this stock is oddly enough on the bargain table at 10 times earnings.*

The energetic leadership of President Stevenson is evident by the acquisition of four companies in 1959 and the announcement of a fifth. The acquisition of the Nuclear Products Division of ACF Industries in May 1959 increased the size of the company's Atomic Energy Division, although this operation yields a return paid in experience rather than dollars.

Foreign sales account for about 20% of the volume, about half being export and half produced in *England, Australia,* and *Mexico.*

J. I. Case — At below 18, Case seems to be an attractive although speculative holding, and the 5½% convertible debentures of 1968 provide a good yield. The company's hard-driving president, Marc Rojtman, estimated in January at the Miami "World Premiere," (next year's show will be held in Paris, France), that 1960 earnings should reach $2.50 a share on 2.9 million shares compared with $1.75 earned in the year ended October 31, 1959. However, it is a little difficult to visualize a 30% lift in earnings in a year when trends in farm income will not help matters, when a strike at the company's Rockford, Illinois, plant has cost about $0.40 a share and the steel strike greatly affected earnings in the first fiscal quarter (November-January).

Mr. Rojtman has done a remarkable job in bringing sales from $87 million in 1956 to $200 million in fiscal 1959. He still maintains that he can increase the pre-tax margin from around 5% to 12% or 15%. This is proving to be a difficult job when plants are in need of further improvement and when markets are competitive. The company's Battendorf, Iowa, plant, with a capacity of about $75 million, optrated at a loss in 1959, but there is some possibility that he will be able to turn a profit there in 1960.

The company's plan to diversify into industrial machinery (largely earth movers to compete with Caterpillar) is showing progress with such sales amounting to 31.2% of total sales in fiscal 1959 and estimated at 35.5% in 1960. In 1955 industrial equipment accounted for only 2.8% of total sales. The aim for 1964 is a 50-50 breakdown between industrial and agricultural equipment.

Rojtman's goal is a sales level of $350 million in three or four years with earnings projected at $7.00 per share after full dilution, based on his profit margin objectives.

The recent announcement that Rojtman will act as special advisor to the company, with William J. Grede, Chairman of the Executive Committee, taking over the presidency to "free Mr. Rojtman from detail" would seem to indicate that there is no basic change in the company's aggressive policies.

International Harvester (49)—Almost as large as front-running Deere in the domestic farm equipment business and accounting for nearly one-third of the market, Harvester looks to trucks for an even larger portion of its sales. About 36% of sales are derived from farm equipment, 47% trucks, 12% construction, and 5% steel and iron. Proposed acquisi-

ROCKWELL
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STANDARD

REPORTS 1959 SALES OVER $280 MILLION

from serving:

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- Agriculture • Petroleum
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- Leaf and Mechanical Springs
- Bumpers • Cushion Springs
- Brakes • Forgings • Stampings
- Grating • Universal Joints
- Executive Aircraft

and recently added:

- Lighting Standards
- Gas and Liquid Filters

DIVIDEND NOTICE

The Board of Directors has today declared a regular quarterly dividend of fifty cents (50¢) per share on the Common Stock of the Company, payable March 10, 1960, to shareholders of record at the close of business February 18, 1960.

A. A. Finnell, Secretary

January 25, 1960

ROCKWELL-STANDARD CORPORATION

Coraopolis, Pennsylvania

IBM

180TH CONSECUTIVE QUARTERLY DIVIDEND

The Board of Directors of International Business Machines Corporation has today declared a quarterly cash dividend of $.75 per share, payable March 10, 1960, to stockholders of record at the close of business on February 10, 1960.

C. V. BOULTON,
Treasurer

590 Madison Avenue
New York 22, N. Y.
January 26, 1960

IBM®

INTERNATIONAL BUSINESS MACHINES CORP.

tion of Solar Aircraft will carry the company into interesting new areas. Despite a nine week strike in the company's plants and the effects of the steel strike, the company reported earnings of $5.10 a share on 13.9 million shares for the year ended October 31, 1959, up 89.6% from 1958. Sales of $1.36 billion were up 24.1% from 1958. Indications are that 1960 will be a good year for trucks with nation-wide shipments exceeding 1.1 million units, but slightly lower shipments of farm equipment could be an offsetting factor.

The stock at about midway between its 1959-60 high of 57½ and low of 39½ has a yield of 4.9% on an amply covered dividend of $2.40.

Caterpillar (30½) recently reported an all - out production schedule to replenish dealer inventories following the steel strike. The fourth quarter in 1959 was at about the break-even point due to steel curtailments, and 1959 earnings of $1.68 per share on 27.2 million shares was down considerably from earlier estimates of $2.00. In 1958 the company reported $1.16.

Caterpillar, the leading manufacturer of earth moving equipment specializing in the crawler-type tractor such as the well-known bulldozer, should benefit for a number of years from the state and federal road building program. The Federal program lends an air of stability to the company's market, since the program will run to 1971 and expenditures are slated to average at close to $8 billion per year over the period, which is near the present level. Other types of construction activity such as shopping centers, industrial construction, highway access roads, and irrigation, point to a moderately higher sales trend for Caterpillar in 1960. A strong position in foreign markets — especially *England, Brazil* and *Australia*—makes the company world-wide in scope, *foreign sales having contributed about 35% to total sales in 1959.* The shares appear to be rather high priced on near-term prospects but are a good holding for the long term, there being some measure of certainty regarding the increasing need for earth moving equipment during the sixties and considering the Company's leading position in the field and its well-regarded management.

END

Contrasts In Progress Between Colombia and Venezuela

(Continued from page 571)

Oil The Key

But the bellwether of the Venezuelan economy continues to be the oil industry which accounts for the bulk of the national budget of $ 1.7 billion and for over 90% of all foreign exchange. Oil production maintained itself at a rather satisfactory level. At a daily average of 2.77 million barrels it was 5% above the previous year's figure, although it did not surpass the all-time high reached in 1957, the year of the Suez crisis. However, investments in the oil sector declined sharply and drilling and exploration activities decreased. To a certain extent, this was due to a deterioration in the world oil situation which is characterized by growing excess capacity.

But to a considerable degree the Venezuelan government is itself at fault for the lower level of oil activity. For at the end of 1958 it increased the tax rate in such a manner that in 1959 oil companies had to pay an unexpected extra $176 million to the national treasury in retroactive taxes.

This has given the country the doubious distinction of having the highest tax rate of any major oil-producing country in the world (about 62% of net profits). The government had hoped, of course, that other oil countries, particularly those in the Middle East, would soon join it in raising taxes and royalties above the traditional 50/50 ratio. However, fourteen months after the event these expectations have not yet been fulfilled and there is little likelihood that they will be in the near future. Thus, the Venezuelan oil sector had to bear the consequences of a policy which has decreased its comparative competitiveness at a time when the world-wide oversupply of oil would seem to call for exactly the reverse move. The results are

that most oil companies have cut back their investment plans in Venezuela and stepped them up elsewhere. Shut-in capacity has grown to 1 million barrels daily and there are at presnet 9,300 shutin wells.

Short-Sighted Policy

Not much improvement is in sight for 1960, in view of the continued oil imports restrictions in the U. S. which normally takes about half of Venezuela's total oil exports. In fact, total oil import quotas in the U. S. are down from last year.

The Venezuelan Minister of Mines and Hydrocarbons has said that the slow-down in the country's oil production does not worry him. On the contrary, he would like to maintain output at roughly the 1959 level of 2.7 million barrels daily. His reasoning is that Venezuelan oil will some day be worth more than it is now. Hence it should be conserved. This thesis is highly hypothetical. In fact, the appearance of atomic power on the horizon plus the vast new oil finds in North Africa and the Soviet Union plus smaller ones in Argentina and Brazil may well cause the value of oil to decline in the future. Certainly, competition is growing by leaps and bounds, making it increasingly difficult for the handful of major international companies to maintain stability in the world oil markets.

The Venezuelan Minister hopes to avert the consequences of this situation by taking a leaf out of the book of Venezuela's coffee-producing neighbors. He would like to see a world-wide agreement on oil prices and/or exports, not too different from the coffee agreement. So far he has met with very little response from the other oil-producing countries whose own plans generally do not tie in with those of the Caribbean republic.

Constructive Thinking the Answer to Prosperity

Thus, the country's oil sector will continue to be troubled in the foreseeable future. But "trouble" is a relative term. Oil production still brings the Venezuelan economy a daily income of \$ 2.4 million and gives the country the highest per-capita income — \$ 800 a year — in all of Latin America. If the income from this source is wisely used it would be sufficient to restore the economy to its health and give it a sounder underpinning than it has ever had before. The possibility of such an achievement is within the reach of the government. But it can only be accomplished by encouraging, rather than brow-beating, the foreign oil companies which have spent a total of nearly \$ 5 billion in Venezuela over the last ten years.

Whether the government can adopt such a policy (with whose essentials it appears to agree) depends largely on the political support it can muster, without having recourse to more flashy popular gestures, such as last year's sudden tax increase. At the moment, the regime of President Betancourt seems to have this support. But democratic traditions in Venezuela are still far from stable and the underground rumblings of dissatisfied elements are quite distinct. END

What 1959 Annual Earnings Reports Reveal

(Continued from page 560)

corporate earnings was good in 1959 despite strikes. In many individual instances lower earnings can be attributed almost directly to this one factor. **Koppers Co.**, for example, produces heavy equipment for the steel industry, and understandably suffered from disruptions when its major customers shut down. Under the circumstances the decline in earnings to \$2.10 per share from \$2.62 a year earlier is not too significant.

For **American Motors,** however, the decline in earnings to \$2.05 per share from \$3.56 in 1958 stems from a completely different source. American now has to pay taxes, the same as everyone else, having used up the last of its tax credits, resulting from several years of losing operations. The company is now on a par with other producers.

The decline in earnings, however, should not blind investors to the extraordinary success of this company in the last few years.

INDIANA
GAS & WATER
COMPANY
INC.

DIVIDEND NOTICE

The Board of Directors has declared a quarterly dividend of 25¢ per share on the common stock of the Corporation, payable March 1, 1960 to shareholders of record February 15, 1960.

H. G. HORSTMAN, *President*

January 29, 1960

GENERAL OFFICES:
1630 N. MERIDIAN STREET
INDIANAPOLIS 2, INDIANA

National Distillers and Chemical Corporation

DIVIDEND NOTICE

The Board of Directors has declared a quarterly dividend of 30¢ per share on the outstanding Common Stock, payable on March 1, 1960, to stockholders of record on February 11, 1960. The transfer books will not close.

PAUL C. JAMESON

January 28, 1960. *Treasurer*

PHELPS DODGE CORPORATION

The Board of Directors has declared a first-quarter dividend of Seventy-five Cents (75¢) per share on the capital stock of this Corporation, payable March 10, 1960 to stockholders of record February 19, 1960.

M. W. URQUHART, *Treasurer.*

February 4, 1960.

By dint of aggressive and courageous management, American Motors has tackled the major producers in the industry and scored a victory with its small car. The heavy output of compact cars this year is mute testimony to American's success.

By the same token its success should not blind investors to the exalted price of the stock. The stock has had a well deserved run in the market. New commitments, however, should be withheld until the company demonstrates that it can maintain its current earnings pace in the face of more intensive competition from the majors.

Summary

The earliest annual reports demonstrate what was proved during the recession of 1957-58. In the face of adversity, America's major corporations can now operate profitably while absorbing a lot of punishment. As pointed out in our Second and Third Quarter Earnings reports, however, the biggest boost in earning occurred in the first three quarters after the end of the recession. Since then profit margins have been declining again, indicating that rapid earnings growth is becoming ever more difficult.

These observations are particularly important now, since all indications point to some degree of business slowdown in the latter half of 1960 or early 1961. This need not call for pessimism about one's holding in good grade stocks that have demonstrated their ability to sustain earnings and dividend payments, although we always believe in taking partial profits to cut costs, and averaging, if one wants to, at better levels. It does call for caution in making new commitments, however, at a time when reasonable returns are available in the short term money market with minimal risk. END

What Annual Earnings Reports Reveal—Part 2

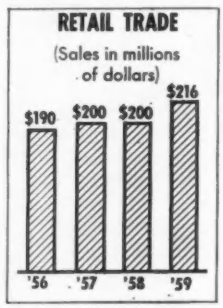
Analysis of Additional Companies

Will Appear In our Issue of February 27, 1960

Profits Outlook for Industries to Pace Our Economy in 1960

(Continued from page 557)

manufacturing; by the same token it mirrors the general level of consumer demand much more closely. The figure given above for total retail sales, $216 billions, includes food as well as dry goods, and naturally retail purchases are both more stable and



more predictable than sales of the capital goods manufacturers. In 1959, however, retail sales, up about 7%, did reflect on element of recovery above the 1958 recession, and the gain is likely to be slightly narrower in the present year. Sales will, of course, switch among types of outlets and companies, but the best opportunities for growth will be in finding new markets or achieving operating economies.

The **mail order** houses seem to be in an excellent position in this regard. Recent sales increases have been much broader than for the industry in general, and the group possesses impressive advantages. **Sears** is benefiting, for example, from the rapid expansion of its Allstate Insurance subsidiary. The department stores with important branches in the faster growing suburban areas, like **Federated,** also enjoy a favorable outlook, but those which have been slow in breaking away from congested down-town locations should be avoided. The better members of these groups could show profit gains of 10% this year, and some dividend increases should ensue. Clothing and specialty stores look less attractive, and the variety chains face rather difficult problems. The food stores are particularly attractive for their steady earnings at a time like the present, although future growth cannot be expected to continue at the same rate as in the recent past.

Caution Needed in Appraising Earnings Growth

It will, of course require more than just wishful thinking to sustain the economy through 1960 and provide the level of profits estimated above. The filling up of steel inventories and the satisfaction of deferred demand in the automotive and other steel-deprived industries, pretty well guarantees capacity operation through the first half or three quarters; after that some other factor will have to appear to prevent a relapse. This could be, as inquiries and authorizations already suggest, a continuing gain in plant investment, or perhaps a larger demand for consumer durables. Nevertheless, some reaction must set in eventually, if not in the present year then early in 1961, and it will be dangerous to imagine the uninterrupted extension of present rates of sales and earning growth.

Another factor should be recalled in appraising corporate progress. Managements typically place considerable emphasis upon the establishment of new sales and profit records. In an earlier era, when the population was growing more slowly and the dollar was stable in value, each new record did have real significance. Today, the frequent establishment of new dollar peaks means very little. *A company probably has to gain at least 3% every year just to stand still, and if it does not gain 5% it is falling behind the rest of the economy.* Reported or anticipated earnings growth must be appraised against this expandable yardstick.

In this light, business as a whole will show a favorable, but not spectacular, earnings growth in the current year. The mild reaction which can be expected to follow the current boom is normal and not disturbing in itself. At the present stage of the business cycle, however, risks are increased and the various abuses in the economy cannot be disregarded. Despite the current market reaction most stock groups remain at prices which do not seem fully justified by the earnings outlook. END

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The December, 1959, audit showed a total of 596 points profit available on the 21 stocks in our open position, in addition to the 138 points profit taken earlier in 1959. Our skill in selecting and holding stocks that were split last year was a feature of our record:

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For Profit and Income

(Continued from page 583)

body can say how many years Allis-Chalmers might take to make money in this field or how much it might make or whether some other company will meanwhile come up with an equally promising or more promising fuel cell. On regular lines, the company might net around $3.50 or more a share this year, against a strike-retarded $2.50 estimated for 1959. Dividends, now totaling $1.25, could be restored to 1957's $2.00 basis. Recent strength in the stock in a weak market reflected publicized emphasis on the fuel-cell allure. With the issue now at 38½, or around 11 times earnings, the premium for fuel-cell possibilities is not great. But under present conditions we will not go beyond saying that the stock is what brokers like to call "an interesting speculation." END

RIO GRANDE VALLEY GAS COMPANY

Brownsville, Texas

DIVIDEND No. 44

The Board of Directors has declared a quarterly dividend of four cents per share on the outstanding common stock of this corporation payable March 14, 1960 to stockholders of record at the close of business, February 19, 1960.

W. H. Meredith
Vice President

February 1, 1960

UNION CARBIDE

A cash dividend of Ninety cents (90¢) per share on the outstanding capital stock of this Corporation has been declared, payable March 1, 1960 to stockholders of record at the close of business Feb. 5, 1960.

JOHN F. SHANKLIN
Secretary and Treasurer
UNION CARBIDE CORPORATION

The Tobacco Stocks

Reviewed In Our Issue of February 27, 1960

Book Reviews

1960 Survey Of Mines

A vastly enlarged Canadian mining industry is cashing in on the resurgence of industrial activity throughout the world, says the 1960 edition of The Financial Post's Survey of Mines.

Growth programs have built the advantageous position of strong ore reserves and new processing plants. New finds in nickel, copper, iron, lithium, tungsten, molybdenum, columbium and other minerals make up the ace-in-the hole for future growth in Canadian mining.

Exploration activity continues at a slower and more careful pace as new mines become increasingly harder to find and more remote. No one knows where the next "big elephant" will be found but the lure of mining is so great that the search never stops.

This 404-page basic reference book on Canadian mining includes a 32-page section of up-to-date maps of important mineral areas as well as details on all active mining companies and thousands of others. The Survey is the most comprehensive book in its field.

An eight-year price range of stock prices, mineral production tables, metal prices, stock commission rates and milling plants are also included.

Financial Post, Toronto $4.00

Peter The First

by ALEXEY TOLSTOY

Here, for the first time, in its final form and in a new translation, is the epic Russian novel which has sold in its native country over two million copies.

Alexey Tolstoy (who was not related to the author of *War and Peace*) began to study the character of his hero, Peter the First, in 1917. When he died almost thirty years later, Tolstoy was still working on his masterpiece, this huge historical canvas which gives brilliant life and meaning to a crucial period in Russian history. Tolstoy reanimates the past by a succession of character creations which range from the serf, Ivan Brodkin, to Peter's sinister and opportunistic favorite, Alexander Menshikoff; from the old Boyars shorn of their beards and their prerogatives to the foreign captains of the new Russian navy. Here in these pages are the beautiful Anna Mons, Peter's first mistress; his wife Eudoxia, whom he never loved; and the peasant girl who eventually was to be crowned Empress Catherine the First. We see these men and women moving across a tapestry of battles abroad, and amid the dark, opulent luxury of the great families and the Imperial Court.

In Tolstoy's moving crowded pages we see the emergence of Russia, thrust forward by Peter's inexorable will, from a backward medieval state to her final position as one of the great powers of Europe. Here are magnificent portraits, the fruits of years of historical research, of Peter's principal opponents: August, Elector of Saxony, indefatigable in his amusements, and King Charles XII of Sweden, a great military genius, flawed by passion and indulgence.

But the true hero of Tolstoy's epic is Peter himself. We see him grow to be a man—awkward, suspicious, prone to spasms of cowardice, but always driving, sometimes provoked almost to madness, to free his country from the chains of backwardness and superstition to take her place as an equal among the nations of the West.

And in the last analysis it is this greatness and originality of character in its hero which gives the stamp of greatness to the book itself.

Macmillan $5.95

Hawaii

by JAMES A. MICHENER

Hawaii is not only a truly great story but a notable literary achievement. It is a work of fiction, yet so true to the spirit and the history of the islands that it can properly be called the first major chronicle of the land and its people—a monumental tribute that will stand indefinitely.

The volcanic processes by which the Hawaiian Islands grew from the ocean floor were inconceivably slow, and they remained, undiscovered and untouched by man, for countless centuries more until the Polynesians, little more than a thousand years ago, made the perilous and incredible journey to their new home. Those passionate and beautiful people lived and flourished in the islands according to their ancient traditions and beliefs until, in the early nineteenth century, the American missionaries arrived, bringing a new creed and a new way of life to a stone-age society. The impact of the coming of the missionaries had only begun to be absorbed when other national groups, with equally different customs—notably the Chinese, the Japanese and the Filipinos—began to migrate in great numbers to the islands. The story of modern Hawaii, and of this book, is one of how disparate peoples, struggling to keep their identity, yet live with each other in harmony, ultimately joined together to build our strong and vital fiftieth state.

Mr. Michener has told this story in terms of highly individual characters, whom readers will not soon forget—men and women of many nations, from the time of the earliest voyagers to arrive in Hawaii by canoe down to the eve of statehood. His emphasis is on the characters, their personal triumphs and tragedies, loves and hatreds; but their compelling dramas are acted in front of an accurate and informative background of history.

Random House $6.95

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Issues to Hold and Advantageous Revisions:

Definite counsel is given on each issue in your account... advising retention of those most attractive for income and growth... preventing sale of those now thoroughly liquidated and likely to improve. We will point out unfavorable or overpriced securities and make substitute recommendations in companies with unusually promising 1960 prospects and longer term profit potentials.

Close Continuous Supervision of All Holdings:

Thereafter—your securities are held under the constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. It is never necessary for you to consult us.

When changes are recommended, precise instructions as to why to sell or buy are given, together with counsel as to the prices at which to act. Alert counsel by first class mail or air mail and by telegraph relieves you of any doubt concerning your investments.

Complete Consultation Privileges:

You can consult us on any special investment problem you may face. Our contacts and original research sometimes offer you aid not obtainable elsewhere—to help you to save—to make money.

Help in Minimizing Your Taxes:

We keep in mind the tax consequences of each transaction and help you to minimize your tax liability. (Our annual fee is allowed as a deduction from your income for Federal Income Tax purposes, considerably reducing the net cost to you.)

Annual Personal Progress Reports:

Throughout the year we keep a complete record of each transaction as you follow our advice. At the end of your annual enrollment you receive our audit of the progress of your account showing just how it has grown in value and the amounts of income it has produced for you.

Full information on Investment Management Service is yours for the asking. Our rates are based on the present value of securities and cash to be supervised—so if you will let us know the present worth of your account—or send us a list of your holdings for evaluation—we shall be glad to quote an exact annual fee . . . and to answer any questions as to how our counsel can benefit you.

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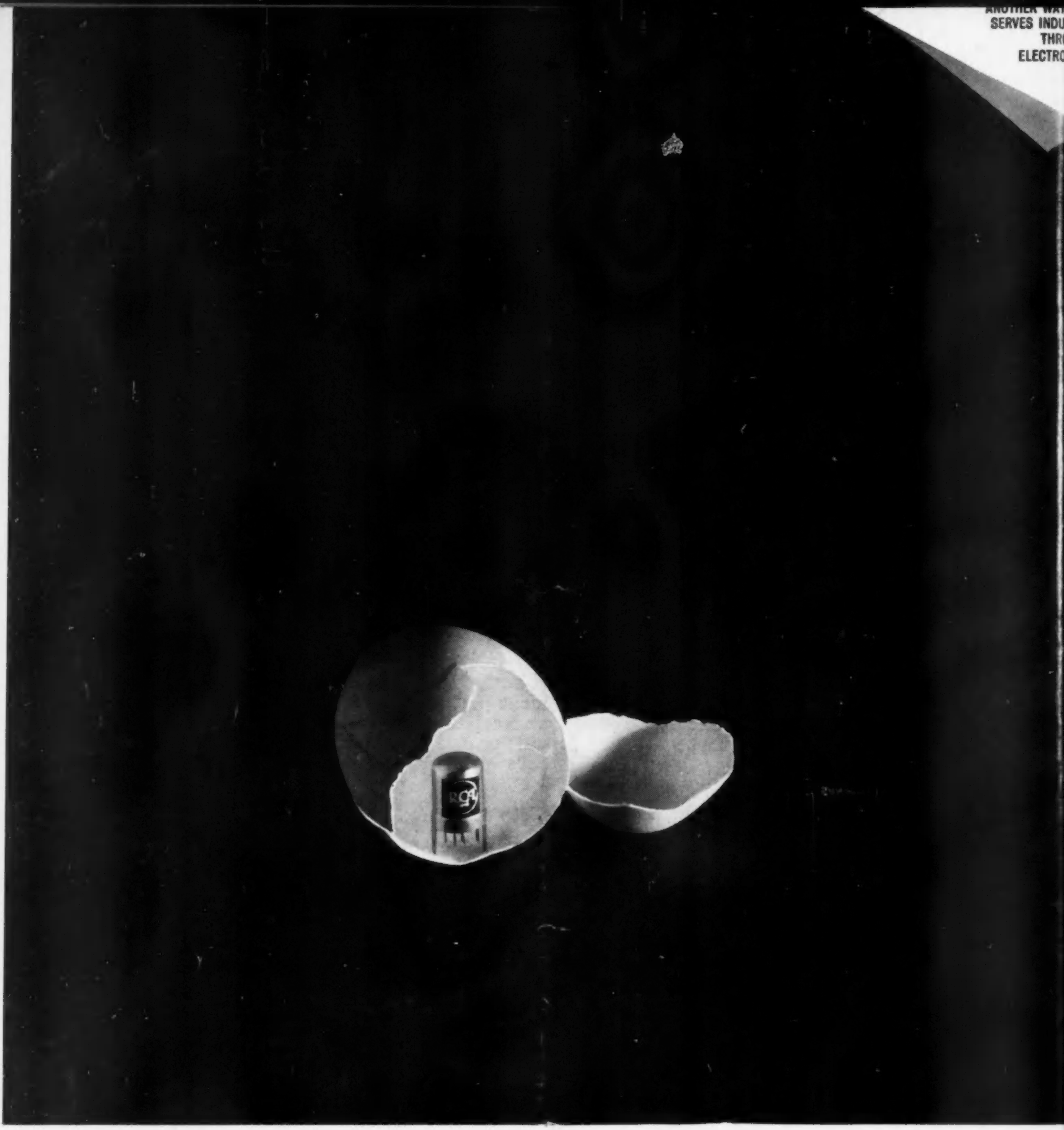

RCA Electronics introduces the tube of tomorrow

Called the Nuvistor, this thimble-size electron tube is likely to start a revolution in electronics. RCA engineers scrapped old ideas—took a fresh look at tube design. The result will be tubes that are far smaller, perform more efficiently, use less power, can take more punishment, are more reliable. Developmental models now being tried out by designers will have a profound effect on the size, appearance, and performance of electronic equipment for entertainment, communications, defense, and industry in the future. It is another example of the way RCA is constantly advancing in electronics.

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